LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 20 February 2017

TREASURY MANAGEMENT STRATEGY 2017/18
(Appendix 1 refers)

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Executive Summary

The report sets out the Treasury Management Strategy for 2017/18, which is in line with CIPFA's revised Code of Practice.

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."

In February 2012 the Combined Fire Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. The strategy also has regard to other CIPFA treasury management publications such as risk management in 'Treasury Risk Toolkit for Local Authorities' (2012) and 'Using Financial Instruments to Manage Risk' (2013).

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 CLG Guidance.

Treasury Management Strategy for 2017/18

This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code of Practice (2011). 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	Revised Policy Statement adopted in February 2013
Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval	Resources Committee/ Authority	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report, scrutiny of performance	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 2017/18

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;
- the level of the approved Capital Programme which generates the borrowing requirement;
- the current structure of the investment and debt portfolio;
- prospects for interest rates and market liquidity.

Economic Context

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. In January The Prime Minister made a speech indicating that Brexit means an exit from the Single Market and the Customs Union however the government will seek a trade deal with the EU for the greatest possible access with full reciprocity. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013. However the Bank is expected see this as a temporary impact of the falling currency. Therefore the inflation overshoots during 2017 are unlikely to result in an increase in interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates. In December 2016 The Federal Open Market Committee (FOMC) of the US Federal Reserve increased the target range for official interest rates. The range was increased to between 0.5% and 0.75%, from 0.25% and 0.5%. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

The impact of the economic and political position on interest rates is also uncertain. The Bank of England has highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. However, should the economy enter recession then a reduction can't be ruled out. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to Lancashire County Council and details of their forecasts are shown later in this report.

Credit outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Legislative Context

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

Interest Rate Forecasts

The prevailing and forecast interest rate situation will be monitored to ensure that opportunities for debt restructuring are maximised. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to Lancashire County Council. At this stage they do not see any increase in the base rate before December 2019.

The latest forecast provided by Arlingclose Ltd is shown in the table over the page:

	Bank Rate	3 Month LIBID	12 Month LIBID	5 Year Gilt Yield	10 Year Gilt Yield	20 Year Gilt Yield	50 Year Gilt Yield
Mar-17	0.25	0.25	0.50	0.50	0.95	1.50	1.40
Jun 17	0.25	0.25	0.50	0.45	0.90	1.45	1.35
Sept 17	0.25	0.30	0.50	0.45	0.90	1.45	1.35
Dec 17	0.25	0.30	0.50	0.45	0.90	1.45	1.35
Mar 18	0.25	0.30	0.50	0.50	0.95	1.50	1.40
June 18	0.25	0.30	0.50	0.50	0.95	1.50	1.40
Sept 18	0.25	0.30	0.60	0.50	0.95	1.50	1.40
Dec 18	0.25	0.30	0.70	0.55	1.00	1.55	1.45
Mar 19	0.25	0.30	0.85	0.60	1.05	1.60	1.50
June 19	0.25	0.30	0.90	0.65	1.10	1.65	1.55
Sept 19	0.25	0.30	0.90	0.70	1.15	1.70	1.60
Dec 19	0.25	0.30	0.90	0.75	1.20	1.75	1.65

In the above table 'bank rate' refers to the policy rate of the Bank of England. 'LIBID' is the London Interbank bid rate and can be used as a proxy for short term market interest rates. 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 1.75%, 0.95% plus 0.80%.

This forecast has been based on the following underlying assumptions:-

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU;
- The global environment has significant uncertainty with repercussions for the financial markets. Financial markets appear to be expecting stronger global growth, but the potential rise in protectionism could dampen growth prospects;
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending;
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment;
- The rise in inflation will continue and will act to slow real growth in household spending;
- Given the pressure on household spending and business investment the rise in inflation is unlikely to prompt monetary tightening by the Bank of England.

Current Treasury Portfolio Position

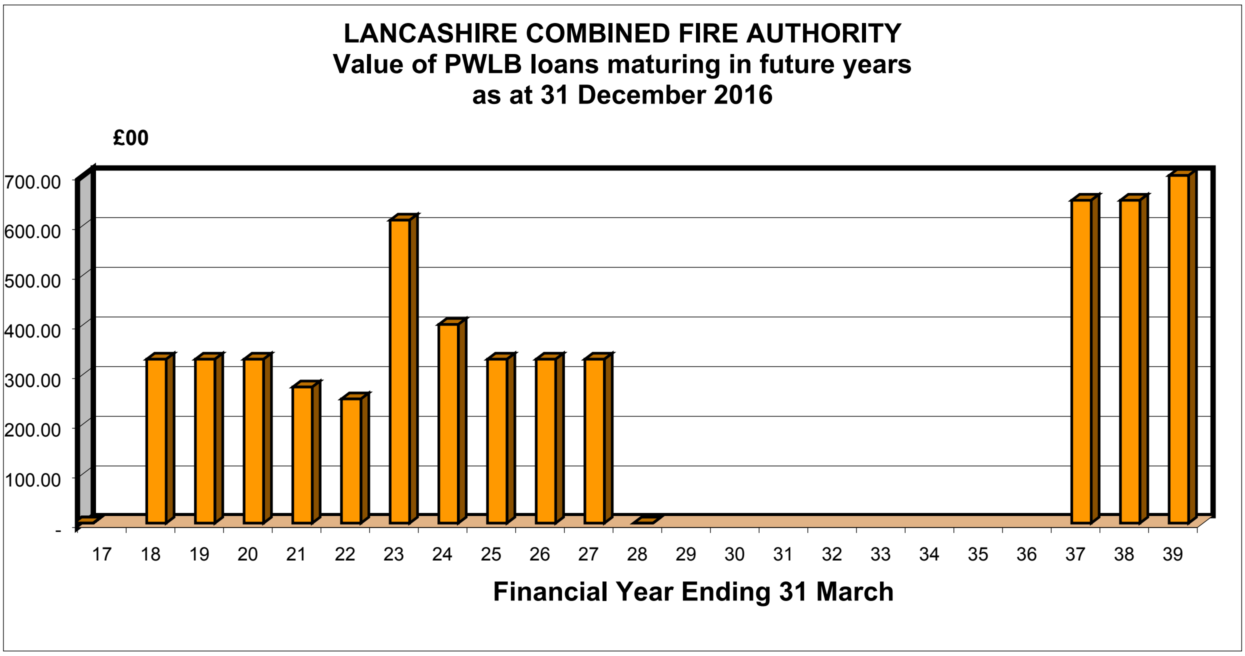
At the 31 December 2016 the debt outstanding was £5.514m with investments of £42.205m:-

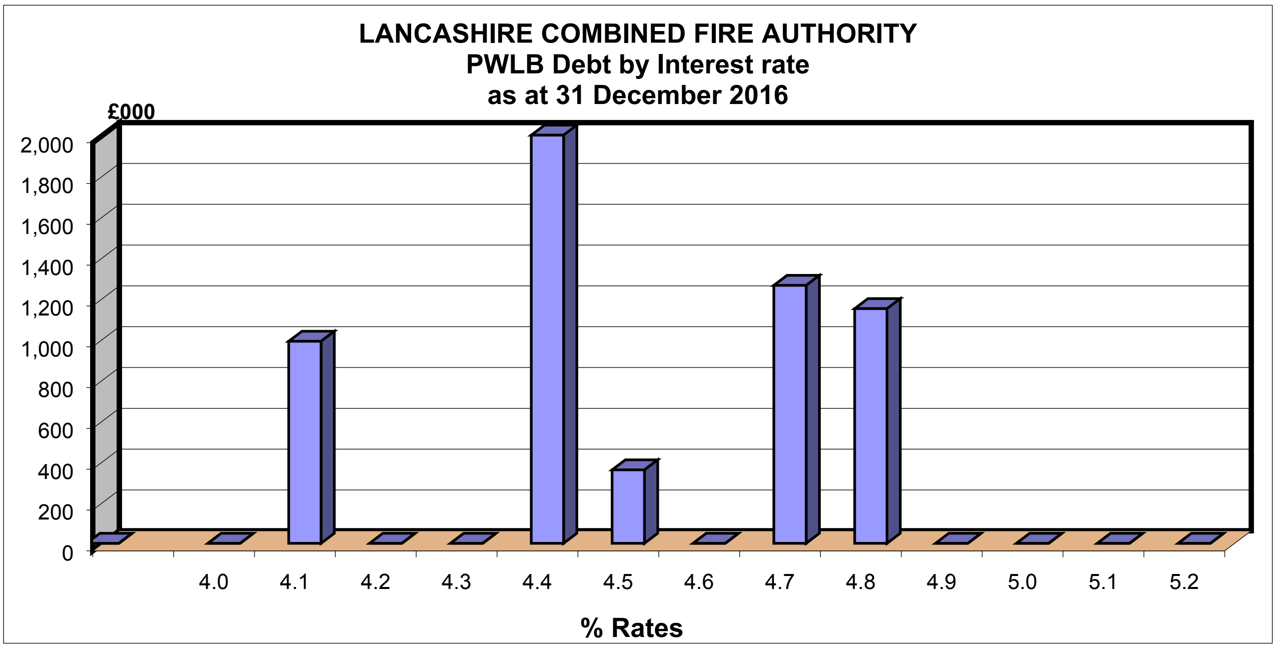
Debt	Principal £m	%
Fixed rate loans from the Public Works Loan Board	5.514	100%
Variable rate loans	-	-
	5.514	100%
Investments		
Variable rate investments with Lancashire County Council	32.205	75.31%
Fixed rate investments	10.000	24.69%
	42.205	100%

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 £36.7m.

Borrowing Requirement and Strategy

CIPFA's Prudential Code for Capital Finance in Local Authorities permits authorities to borrow for capital purposes. Although the Authority does not have plans for new borrowing it does currently hold £5.514m of loans as part of its strategy for funding previous years' capital programmes. The charts below show the current maturity profile and the interest rate profile of the Authority's borrowings.





The Authority's underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). 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 Authority has adopted 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 effect of this policy is that the current level of loans outstanding exceed the CFR with the surplus cash forming part of the investment portfolio. This can be expressed as a negative borrowing requirement in year with the cash being available for an early repayment if it is seen advantageous (for further details see section on debt restructuring).

Borrowing Strategy

Although it is unlikely that borrowing will be required in 2017/18 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.

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.

In the past the Authority has raised all of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans, the Municipal Bond Agency set up recently by the Local Government Association and bank loans, that may be available at more favourable rates.

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

Although the Authority does not need to borrow for new capital expenditure it does have £5m of existing debt as a result of prior years' capital investment. As part of the Strategy adopted in 2014/15 additional MRP payments have been made which would enable loans to be repaid on maturity without the need to replace them or if advantageous to repay loans early. The Strategy developed was :

- Within the 5 year period £1.16m of debt will have matured and will be repaid at the appropriate time. This will leave a balance of £4.854m of debt at the end of 2018/19.
- Additional monies have been set aside in the form of additional MRP contributions in order to provide scope to pay off debt at that point in time.
- £5.0m has been invested for a fixed 5 year term, in order to attract a higher interest rate and offset some of the interest payable. At that point in time it is forecast that the premium/penalty payable for early redemption will have reduced. (The premium/penalty varies throughout the period of the loan dependent upon how long the loan has to maturity and how the interest rate on the loan compares to current market rates). Where the loan has a long term remaining and is at a high interest rate compared to market rates then the premium/penalty is high and vice versa.

Since that time no further debt has been taken and the maturing debt has been repaid. This leaves the current balance of loans outstanding to be £5.514m with the expected balance outstanding at 31 March 2019 to be £4.854m. The estimated cash available to pay debt as a result of the policy is:

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Borrowing Requirement B/Fwd	(5.682)	(5.456)	(5.184)	(4.854)
Repayment of maturing debt	0.250	0.330	0.330	0.330
Borrowing for capital programme	-	-	-	-
Less voluntary MRP	(0.024)	(0.058)	-	-
Total Borrowing Requirement	(5.456)	(5.184)	(4.854)	(4.524)

As part of the Treasury Management function the Director of Corporate Services, in combination with the County Council's treasury management team, reviews the policy put in place in 2014/15 and the opportunities to repay debt early.

A reworking of the debt restructuring exercise in February 2017 indicated that the cost of repaying the loans in the year would be in the region of £1.6m. This would result in lower interest payments over the period of the loans of £2.7m a net gain over the period of the loans of £1.1m. However, paying the loans early would result in a loss of investment income. Once this is taken into consideration then it is estimated that the repayment of the loans would cost rather than save the Authority money. Clearly, there is no guarantee of future interest rates on investments but to break even then the following rates would be required:

Period to maturity	Loans outstanding	Average Interest rate to break even
	£m	%
Up to 4 years	1.264	0.34
4-10 years	2.250	1.09
Over 10 years	2.000	2.37

As can be seen, in order for it to be beneficial to pay off the loan, interest rates would need to continue at low rates compared with the historic rates. Whilst there is no guarantee, it appears unlikely that this will be the case and hence it is recommended that debt restructuring is not undertaken at the current time. The situation will be reviewed again as part of the mid-year update.

Investment Strategy

At 31st December 2016 the Authority held £32.2m invested funds, representing income received in advance of expenditure plus existing balances and reserves. In the past 12 months, the Authority's investment balance has ranged between £41.2m and £22.8m. 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 CLG 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.

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

* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments

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. The fund targets returns of 3 month Libor + 40 basis points which is currently around 0.76% in total.

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.

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 unsecured term deposits will be used at the present time. However lending to banks on a collateralised basis is something that is being considered for the future.

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 rate, this is currently 0.25%. 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 two long term loans have been placed with UK local authorities as outlined below:

Start Date	End Date	Principal	Rate	Annual Interest	Interest 2016/17
30/6/14	28/6/19	£5,000,000	2.4%	£120,000	£120,000
31/7/14	31/7/17	£5,000,000	1.6%	£80,000	£80,000

Consideration is given 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 although current rates payable by other local authorities are:

3 month investment	0.35%
6 month investment	0.40%
12 month investment	0.45%

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2016 was £0.285m on an average balance of £42.632m at an annualised rate of 0.74%. This compares favourably with the benchmark 7 day LIBID which averages 0.24% over the same period, and is 0.49% above the current bank rate.

Specified and Non-specified investments

The legislative and regulatory background to treasury management activities requires the Authority to set out its use of “specified” and “non-specified” investments.

Specified Investments: The CLG Guidance defines specified investments as those:-

- denominated in pound sterling;
- due to be repaid within 12 months of arrangement;
- not defined as capital expenditure by legislation, and invested with one of:
    - the UK Government;
    - a UK local authority, parish council or community council, or;
    - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations as those having a credit rating of A+ or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Non-Specified Investments: any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

The Authority may lend or invest money using any of the following instruments:-

- interest-bearing bank accounts;
- fixed term deposits and loans;
- callable deposits where the Authority may demand repayment at any time (with or without notice);
- certificates of deposit;
- bonds, notes, bills, commercial paper and other marketable instruments, and

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

The Authority prepares daily cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium term financial plan and cash flow forecast.

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 implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

It is proposed to continue to utilise the Capital Financing Requirement (CFR) Method. This provides for a charge of 4% of the value of fixed assets, as measured on the balance sheet, for which financing provision has not already been made. It is currently estimated that this has a nil value for capital expenditure financed by borrowing.

In addition the Authority has previously agreed additional voluntary MRP contributions in order to reduce current and future borrowing requirements and to provide scope to pay off debt as it matures, as set out earlier. This is still considered a prudent approach, and as such the table overleaf allows for a continuation of this policy.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Statutory charge to revenue 4% MRP	-	-	-	-
Additional voluntary lump sum MRP	0.024	0.058	-	-
Total MRP	0.024	0.058	-	-

Whilst the Authority has no unsupported borrowing, nor has any plans to take out any unsupported borrowing it needs to approve a policy relating to the MRP that would apply if this were not the case. 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.

Prudential Indicators for 2016/17 to 2019/20 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 finance leases for operational vehicles and photocopiers.

Treasury Management Prudential Indicators

Treasury Management Prudential Indicators	2016/17 (Revised) £m	2017/18 £m	2018/19 £m	2019/20 £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	7.800	7.800	7.800	7.800
Other long-term liabilities	15.400	15.000	14.700	14.300
TOTAL	23.200	22.800	22.500	22.100
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	6.800	6.800	6.800	6.800
Other long-term liabilities	14.900	14.500	14.200	13.800
TOTAL	21.700	21.300	21.000	21.600
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%	25%	25%	25%
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	30	-
12 months and within 24 months	30	-
24 months and within 5 years	50	-
5 years and within 10 years	80	-
10 years and above	90	-

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 £7,000, 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	November 2011	Keith Mattinson
The Department of Communities and Local Government (CLG) guidance on local authority investments	March 2010	Keith Mattinson
Treasury Management in the Public Services: Code of Practice 2011 Edition.	November 2011	Keith Mattinson
Revenue and Capital Budget Reports	February 2017	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 Communities and Local Government Guidance on Local Government Investments and 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.