

West Yorkshire Fire and Rescue Service

Treasury Management Strategy
2024/25

Contents

1	Purpose	3
2	Regulations	3
3	National Guidance and Governance	4
4	Governance	5
5	External Support	6
6	Training	6
7	Borrowing Strategy	6
8	Investment Strategy	9
9	Investment Guidance	10
10	Strategy	10
11	Credit Rating	11
12	Investment of money borrowed in advance of need	12
13	Prudential Indicators	13
	Appendix A	14
	Appendix B	20
	Appendix C	23
	Appendix D	25

1 Purpose

- 1.1 Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice as:
 - 1.1.1 "The management of the Authority's borrowings, investments and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 1.2 There are two parts to the treasury management operations, the first is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are placed in low-risk counterparties or instruments in line with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of treasury management is the funding of the Authority's capital plans. The Capital Strategy provides a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations.

2 Regulations

- 2.1 The CIPFA Code of Practice on Treasury Management (TM) and the CIPFA Prudential Code require local authorities to determine and set the Authority's Treasury Management Strategy, its Strategy relating to investment activity, and Prudential Indicators on an annual basis. The Authority currently has cash backed reserves and balances of circa £43m, so it is important that robust and appropriate processes are in place to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund. Set out below are the key elements of the Strategy covering the borrowing requirements and investment arrangements.
- 2.2 The Authority's Investment Strategy has regard to the TM Code and the Guidance. It has two objectives: the first is security, to ensure that the capital sum is protected from loss, ensuring that the Authority's money is returned; and the second is portfolio liquidity, to ensure that cash is available when needed. Only when the proper levels of security and liquidity have been determined can the Authority then consider the yield that can be obtained within these parameters.
- 2.3 This Strategy has been created based on CIPFA Prudential and Treasury Management Codes, which requires the Authority to prepare a Capital Strategy. This Authority does not envisage any commercial investments and has no non-treasury investments.
- 2.4 Treasury Management activity is governed and managed by using a set of standards which are called Treasury Management Practices. These set out the way in which the Authority aims to achieve its treasury management policies and objectives and how it will manage and control those activities.. These are attached in Appendix A.

3 National Guidance and Governance

- 3.1 CIPFA published the revised CIPFA Treasury Management Code and Prudential Code on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year, which are taken to Full Authority for approval.
- 3.2 The revised Treasury Management Code will require an authority to implement the following:
 - 3.2.1 Adopt a new debt liability benchmark treasury indicator.
 - 3.2.2 Re-class long term treasury investments as commercial investments (not applicable).
 - 3.2.3 Pooled funds to be included in the indicator for principal sums maturing in the year beyond the initial budget year (not applicable).
 - 3.2.4 Amendments to the knowledge and skills register for those involved in the treasury management function (TMP6).
 - 3.2.5 Report to members quarterly on indicator performance.
 - 3.2.6 Environmental, social and governance (ESG) issues to be addressed within the Authority's treasury management policies and practices (TMP1).
- 3.3 In addition, this Strategy also complies with the CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the TM Code"), and Guidance on Local Government Investments issued by the Secretary of State for Communities and Local Government under section 15(1)(a) of the Local Government Act 2003 ("the Guidance"). Specific decisions on the timing and amount of any borrowing will be made by the Authority's respective Directors of Finance and Corporate Services in line with the agreed Strategy.
- 3.4 The Local Government Act 2003, section 15 (1)(a), gives local authorities the power to use capital receipts to fund certain categories of expenditure. Guidance around the flexible use of capital receipts was issued by The Secretary of State and was effective from the 1st of April 2022. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authorities', or several authorities, and/or to another public sector body's net service expenditure.

- 3.5 A list of types of projects that would qualify for the flexible use of capital receipts is included in the Guidance. These include investment in service reform feasibility work, the cost-of-service reconfiguration, restructuring or rationalisation, improving systems to tackle fraud and corruption, setting up commercial delivery models to deliver services more efficiently. If the Authority decides to use capital receipts flexibly on projects included in the guidance, it is required to produce a Flexible use of Capital Receipts Strategy.
- 3.6 It is not expected that the Authority will call upon the flexible use of capital receipts and will continue to use them to fund existing capital expenditure. As such a capital receipts strategy is not required.

4 Governance

- 4.1 CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021) requires public sector organisations to nominate a responsible body for the scrutiny of treasury management strategy and policies. The Finance and Resources Committee is the nominated committee to scrutinise treasury management and to support this it receives and approves several financial reports each year, which cover the following:
- 4.1.1 An Annual Treasury Management and Investment Strategy: This Strategy is reported annually to Full Authority in February. This Strategy includes: -
- 4.1.1.1 the Capital Programme together with the appropriate prudential indicators.
 - 4.1.1.2 the minimum revenue provision (MRP) policy, which details how residual capital expenditure is charged to revenue over time.
 - 4.1.1.3 the Treasury Management Strategy, which defines not only how the investments and borrowings are to be organised, but also sets out the appropriate treasury indicators-
 - 4.1.1.4 an Investment Strategy which sets out the parameters on how deposits are to be managed.
- 4.1.2 A Mid-year Treasury Management Report: This is presented to Finance and Resources Committee in February and provides an update on current investments and borrowing, the Capital Programme, and performance of prudential indicators.
- 4.1.3 A Year-end Annual Report: This provides the final outturn position for the year in relation to investments and deposits made during the year, prudential and treasury indicators, and a summary of the actual treasury activity during the year. This is reported to Finance and Resources Committee in July.

5 External Support

- 5.1 The Authority uses Link Group as its external Treasury Management Advisor. The Authority recognises that the responsibility for treasury management decisions remains with itself and will ensure that undue reliance is not placed upon the external advisor. The Authority appointed Link Group in July 2021 when the responsibility for Treasury Management was transferred to the Authority from Kirklees Council, where it was provided as a Service Level Agreement.
- 5.2 The CFPO and the treasury management accountant receive daily, weekly, and monthly reports on treasury management activity within the UK, Europe and Worldwide.

6 Training

- 6.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A training session was delivered by Link in October which was attended by both members and officers.
- 6.2 The training needs of treasury management officers is ongoing to ensure that knowledge is kept up to date.

7 Borrowing Strategy

7.1 Borrowing Arrangements

- 7.1.1 The Authority has been using its cash balances by deferring long term borrowing, no new long-term borrowing has been taken out since December 2011. Accountants engaged in treasury management monitor interest rates and receives advice from the Authority's Treasury Management Advisor on changes to market conditions, so that borrowing and investing activity can be undertaken at the most advantageous time. It is not anticipated that the Authority will take out any new external borrowing until late 2024 / early 2025.
 - 7.1.2 When taking new borrowing, due attention will be paid to the Authority's debt maturity profile. It is good practice to have a maturity profile for long-term debt which does not expose the Authority to a substantial borrowing requirement in years when interest rates may be at a relatively high level. In accordance with the requirements of the Code, the Authority sets out limits with respect to the maturity structure of its borrowing later in this report.
- 7.2 It is predicted that as at the 31 March 2024, the Authority will have total external borrowing and other long-term liabilities of around £41.9 million.

Table outlining Estimated Debt in PWLB Loans and LOBO, 31 March 2024

	£m	%
PWLB Loans	39.90	95.2
LOBO	2.00	4.8
Total	41.90	100.

- 7.3 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and flexibilities to restructure and make possible savings. Although, the Government decided to raise rates for new PWLB loans in October 2010 by around 0.90%, it has since introduced a discounted rate for local authorities joining the new “certainty rate” scheme. The Authority has joined the scheme and will have access to loans discounted by 0.20% in 2024/25.
- 7.4 The Authority also has a LOBO (Lender’s Option, Borrower’s Option) loan. The way this loan works is that the Authority pays interest at a fixed rate for an initial period and then the lender has the option in the secondary period to increase the rate. If the option is exercised, the Authority can either accept the new rate or repay the loan. The Authority’s loan is in its secondary period with intervals of 5 years between options. The next option date is May 2026.
- 7.5 There have been moves by some lenders to amend the terms of their LOBO loans to convert them to ‘vanilla’ fixed rate loans. No approach has yet been made by Dexia Credit Local, the lender to the Authority to amend any of the conditions of the loan.
- 7.6 The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative source of Local Authority finance. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other Local Authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

In terms of meeting the Authority’s borrowing requirement over the next five years, it is proposed to take out short term temporary borrowing until the long term PWLB rate reduces to previous levels which is forecast to be Q3 2025.

7.7 .

PWLB (%)	December 23	March 24	September 24	March 25	September 25	March 26
5 years	5.0%	4.9%	4.7%	4.2%	3.8%	3.6%
10 years	5.1%	5.0%	4.7%	4.2%	3.8%	3.7%
25 years	5.5%	5.3%	4.9%	4.5%	4.2%	4.1%
50 years	5.3%	5.1%	4.7%	4.3%	4.0%	3.9%

Table showing PWLB bank rate forecast.

7.8 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some of the higher rate loans with new loans at lower interest rates where this will lead to an overall saving or reduce risk. A review is undertaken annually to assess if this is financially advantageous for the Authority, all reviews have concluded that it is not viable to repay existing loans.

7.9 Borrowing in Advance of Need

The Authority will not borrow in advance of its needs to profit from any short-term interest rate advantage. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. The risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual treasury reports.

7.10 Debt Rescheduling

7.11 Whilst short term interest rates continue to be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of the debt repayment (premiums incurred). The reasons for rescheduling may include the generation of cash savings in annual interest payments or to amend the maturity profile of the portfolio.

- 7.12 The premium now charged by the PWLB generally makes restructuring debt for interest rate reasons unattractive. Consideration would be given to debt restructuring if there was a significant change in the PWLB's policy. Any debt rescheduling will be reported to the Authority at the earliest opportunity following the rescheduling.
- 7.13 Borrowing policy and performance will be continuously monitored throughout the year and is reported to Members.

8 Investment Strategy

Overview

- 8.1 Investment guidance issued by the Department for Levelling Up Housing and Communities (DLUHC), requires that an investment strategy, outlining the Authority's policies for managing investments in terms of risk, liquidity, and yield, should be approved by full Authority or equivalent level before the start of the financial year. This strategy can then only be varied during the year by the same executive body.
- 8.2 The Authority's Investment Strategy has regard to:
- 8.2.1 DLUHC's guidance on Local Government investments ("the Guidance").
 - 8.2.2 CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code").
 - 8.2.3 CIPFA Treasury Management Guidance Notes 2021.
- 8.3 The Investment Strategy has two main objectives: the first is security, to ensure that the capital sum is protected from loss; and the second is portfolio liquidity, to ensure that cash is available when needed. Only when the proper levels of security and portfolio liquidity have been determined can the Authority then consider the yield that can be obtained within these parameters.
- 8.4 The Authority will ensure that robust due diligence procedures cover all external investments.
- 8.5 The Treasury Management Code of Practice details that the term "investments" used in the definition of treasury management activities also covers other non-financial assets which an organisation holds primarily for financial returns, such as investment property portfolios. The Authority does not hold non-financial assets primarily for financial returns, nor does it propose to do so.
- 8.6 The guidance from DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means.
- 8.6.1 Minimum acceptable credit criteria are applied to generate a list of highly creditworthy counterparties.

- 8.6.2 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.
 - 8.6.3 To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
 - 8.6.4 Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 8.7 As at the 31 March 2024, the Authority is expected to have around £14.0 million invested externally, primarily in instant access accounts or short-term deposits, with local authorities, major British owned banks, building societies or Money Market Funds (MMFs). This will also ensure compliance with The Markets in Financial Instruments Directive II, whereby those maintaining a professional status must keep a minimum of £10 million invested at any point in time.

9 Investment Guidance

- 9.1 The guidance splits investments into two types – specified and non-specified.
- 9.1.1 Specified investments are those offering high security and liquidity. All such investments should be in sterling with a maturity of no more than a year. Investments made with the Government’s Debt Management Account Deposit Facility (DMADF) and a Local Authority automatically count as specified investments, as do investment with bodies or investment schemes of “high credit quality”. It is for individual authorities to determine what they regard as “high credit quality”.
 - 9.1.2 Non-specified investments have greater potential risk, being investments with bodies that have a credit rating below “high credit quality”; bodies that are not credit rated at all; and investments over a year.
- 9.2 It is estimated that the Authority could have up to £35 million to invest at times during the year which is a combination of cash received in advance, reserves and creditors.

10 Strategy

- 10.1 It is proposed to continue with a low-risk strategy in line with previous years and where possible to borrow internally. This will help in reducing the amount of money the Authority has invested at any one time and minimise the cost of borrowing.
- 10.2 Key features of the strategy are as follows:

Specified Investments

- 10.2.1 The Authority can invest up to £6 million on an instant access basis with foreign based banks with a “high to upper medium grade” credit rating.

10.2.2 The Authority can invest up to £6 million in individual MMFs (instant access or two-day notice). MMFs are pooled investment vehicles, having the advantage of providing wide diversification of risk, coupled with the services of a professional fund manager.

10.2.3 The Authority can invest in the Governments DMADF for up to 6 months.

10.2.4 The Authority can invest in local authorities for up to 364 days.

Non-Specified Investments

10.2.5 The Authority can invest up to £1 million and up to two months with individual UK banks and building societies with a “medium grade” credit rating.

10.2.6 The Authority adopts an overall limit for non-specified investments of £2 million.

10.2.7 A maximum limit of £6 million applies to any one counterparty and this applies to a banking group rather than each individual bank within a group.

10.2.8 For illustrative purposes, Appendix B lists which banks and building societies the Authority could invest with based on credit ratings as at the beginning of December 2022.

10.2.9 The policy allowing the Authority to invest up to £6 million with part-nationalised UK banks with mid “medium grade” credit ratings has been removed. With the Government steadily divesting themselves of their stake in these banks and the recent bail-in legislation, it is unlikely that the Government would bail these banks out if they got into further trouble.

10.2.10 There may be opportunities in the future for local authorities to use collateralised products, in particular reverse repurchase agreements (REPOs). These products are secured on the borrower’s assets (such as gilts or corporate bonds) and are exempt from bail-in. The rates are currently comparable to unsecured investments, but entry levels are likely to be for investments of £10 million plus. It is proposed that reverse repurchase agreements are available to use under the strategy at the higher level indicated above.

11 Credit Rating

11.1 The Authority uses credit ratings from the three main rating agencies - Fitch, Moody’s and Standard & Poor’s to assess the risk of investment defaults (Appendix C). The lowest credit rating of an organisation will be used to determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

11.2 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria:

11.2.1 No new investments will be made.

- 11.2.2 Any existing investments that can be recalled at no cost will be recalled.
- 11.2.3 Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 11.3 Where a credit rating agency announces that a rating is on review for possible downgrade (“rating watch negative or credit watch negative”) so that it is likely to fall below the required criteria, then no further investments will be made in that organisation until the outcome is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 11.4 Following the Government’s fiscal event on the 23rd of September 2022, both Standard and Poor’s and Fitch have placed the UK sovereign debt on negative outlook considering expectations of weaker finances and the economic outlook.
- 11.5 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements, and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.
- 11.6 Investments may be made using the following instruments:
- 11.6.1 Interest paying bank accounts.
 - 11.6.2 Fixed term deposits.
 - 11.6.3 Call or notice deposits.
 - 11.6.4 Callable deposits.
 - 11.6.5 Shares in money market funds
 - 11.6.6 Reverse repurchase agreements.

12 Investment of money borrowed in advance of need

- 12.1 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.
- 12.2 Annual cash flow forecasts are prepared which are continuously updated. This helps determine the maximum period for which funds may be prudently committed.
- 12.3 Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

13 Prudential Indicators

13.1 The Authority is asked to approve certain treasury management indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Authority's overall financial position. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The proposed indicators are set out in Appendix D.

Appendix A

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the way the Authority aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1. TMP1 Risk management

The Chief Finance & Procurement Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

2. Credit and counterparty risk management

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing arrangements.

3. Liquidity risk management

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. The Authority will not borrow in advance of need.

4. Interest rate risk management

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the

level or structure of interest rates. The above is always subject to the consideration and, if required, approval of any policy or budgetary implications.

5. Exchange rate risk management

The Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

6. Refinancing risk management

The Authority will ensure that its borrowing is negotiated, structured, and documented, and the maturity profile of the monies raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

7. Legal and regulatory risk management

The Authority will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Authority.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

8. Fraud, error and corruption, and contingency management

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

9. Market risk management

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

10. Environmental, Social & Governance Considerations

The Authority's credit and counterparty policies set out the policies and practices relating to environmental, social and governance investment considerations. The

credit rating agencies that the Authority uses, incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings.

11. TMP2 Performance measurement

The Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Authority's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery and of other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

12. TMP3 Decision-making and analysis

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

13. TMP4 Approved instruments, methods, and techniques

The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Authority will seek proper advice when entering arrangements to use such products.

14. TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If the Authority intends, because of lack of resources or other circumstances, to depart from these principles, the Chief Finance & Procurement Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and

management information arrangements, and the implications properly considered and evaluated.

The Chief Finance & Procurement Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover.

The Chief Finance & Procurement Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegation to the Chief Finance & Procurement Officer in respect of treasury management is set out in the schedule to this document. The Chief Finance & Procurement Officer will fulfil all such responsibilities in accordance with the Authority's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

15. TMP6 Reporting requirements and management information arrangements

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Authority and Finance & Resources Committee will receive:

- an annual report on the strategy and plan to be pursued in the coming year.
- a mid-year review.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

16. TMP7 Budgeting, accounting, and audit arrangements

The Chief Finance & Procurement Officer will prepare, and the Authority will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The Chief Finance & Procurement Officer will exercise effective controls over this budget and will report any major variations.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and

standards, and with statutory and regulatory requirements in force for the time being. The present form of this function's accounts is set out in the schedule to this document.

The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

17. TMP8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the Chief Finance & Procurement Officer and will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance & Procurement Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

18. TMP9 Money laundering

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved in treasury management activities are fully aware of their responsibilities. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

19. TMP10 Training and qualifications

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are detailed in the schedule to this document.

The Chief Finance & Procurement Officer will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

20. TMP11 Use of external service providers

The Authority recognises that responsibility for treasury management decisions always remains with the organisation. However, it also recognises the potential value of employing external providers of treasury management services, to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the

methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

It will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Authority's Contract Procedure Rules will always be observed. The monitoring of such arrangements, rests with the Chief Finance & Procurement Officer, and details of the current arrangements are set out in the schedule to this document.

21. TMP12 Corporate governance

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

The Authority has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance & Procurement Officer will monitor and, if necessary, report upon the effectiveness of these arrangements

Appendix B

Specified

	Short-term Credit Ratings/L-Term Credit Ratings	Short-term Credit Ratings/L-Term Credit Ratings	Short-term Credit Ratings/L-Term Credit Ratings	Short-term Credit Ratings/L-Term Credit Ratings	Short-term Credit Ratings/L-Term Credit Ratings	Counterparties falling into category as at December 2023
	Investment Limits per Counterparty	Investment Limits per Counterparty	Investment Limits per Counterparty	Investment Limits per Counterparty	Investment Limits per Counterparty	
	Fitch	Moody's	S&p	£m	Period (1)	
Banks/Building Societies (Reverse Repurchase Agreements)	F1 AAA, AA+, AA-, A+, A, A-	P-1 Aaa, Aa1, Aa2, Aa3, A1, A2, A3	A-1 AAA, AA+, AA-, A+, A, A-	10	Up to 364 days	
Banks/Building Societies Deposit Accounts, fixed term deposits)	F1 AAA, AA+, AA-, +, , a-	P-1 Aaa, Aa1, Aa2, Aa3, A1, A2, A3	A-1 	6 6	<100 days 6 <6 mth	
MMF (3)				6	Instant access/up to 2 days' notice	
UK Government (Fixed Term Deposits)	-	-	-	Unlimited	< 6mth	
UK local authorities	-	-	-	Unlimited	Up to 364 days	Lancashire CC, Bedfordshire County

(fixed term deposits)						Council, Dover District Council, Aberdeen City Council
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Non specified (4)

	Short-term Credit Ratings Long-Term Credit Ratings	Short-term Credit Ratings Long-Term Credit Ratings	Short-term Credit Ratings Long-Term Credit Ratings	Investment Limits per Counterparty	Investment Limits per Counterparty	Counterparties falling into category as at December 2023
	Fitch	Moody's	S & P	£m	Period (1)	
UK Banks/Building Societies (Fixed Term deposits)	F1, F2 Higher than BBB	P-1, P-2 Higher than Baaa2	A-1, A-2 Higher than BBB	6	<2mth	

- 1 The investment period begins from the date on which funds are paid over.
1. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency and means that they are exempt from bail-in. Where there is no investment specific credit rating but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
2. Overall limit for investments in MMFs of £24 million.
3. Overall limit of £24 million.

Appendix C

Credit ratings

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		High grade
Aa3		AA-		AA-		High grade
A1	P-2	A+	A-1	A+	F1	Upper mediumgrade
A2		A		A		
A3		A-		A-		
Baa1	P-3	BBB+	A-2	BBB+	F2	Lower mediumgrade
Baa2		BBB		BBB		
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investmentgrade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1		C		CCC+		C
Caa2	CCC		Extremely speculative			
Caa3	CCC-					

Ca	[Blue Column]	CC	[Green Column]	[Orange Column]	[Light Blue Column]	In default with little prospect for recovery
		C				
C		D	/	DDD	/	In default
/				DD		
/						

Appendix D

TREASURY MANAGEMENT INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)

The Code requires that where gross debt is greater than the CFR, they should clearly state the reasons for this in the annual strategy. This does not apply to this Authority as its gross debt will not exceed the CFR.

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility by variable interest rates on at least part of the treasury management portfolio. The Code requires the setting of upper limits for both variable rate and fixed interest rate exposure.

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures for 2024/25, 2025/26 and 2026/27 of 100% of net interest payments. It is further recommended that the Authority sets an upper limit on its variable interest rate exposures for 2024/25, 2025/26 and 2026/27 of 40% of its net interest payments.

	Limit Set 2023/24	Forecasted Actual 2023/24
Interest at fixed rates as a percentage of net interest payments	60% - 100%	100%
Interest at variable rates as a percentage of net interest payments	0% - 40%	0.0%

Table showing set upper limit on fixed interest rate and variable rate exposures.

This means that fixed interest rate exposures will be managed within the range 60% to 100%, and variable interest rate exposures within the range 0% to 40%.

Maturity Structure of Borrowing

This indicator is designed to prevent the Authority having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings as

follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2023/24	Forecasted Actual 2023/24
Under 12 months	0 - 20%	4.8%
12 months to 2 years	0 – 20%	2.4%
2 years to 5 years	0 – 60%	5.9 %
5 years to 10 years	0 – 80%	7.2 %
More than 10 years	20 – 100%	79.7%

Table setting out amount of projected borrowing that is fixed rate maturing in each period.

*LOBOs are classed as fixed rate debt unless it is considered probable the option will be exercised.

Total principal sums invested for periods longer than 364 days.

The Authority is not intending to invest sums for periods longer than 364 days.

Liability Benchmark

The liability benchmark is a projection of the amount of loan debt outstanding that the Authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. It is a long-term forecast of the Authority's gross loan debt (or 'gross loans requirement') based on its current capital programme and other forecast cash flow movements.

This is shown by the gap between the Authority's existing loans that are still outstanding at a given future date and the Authority's future need for borrowing (as shown by the liability benchmark).

It therefore shows how closely the existing loans book fits the future needs of the Authority based only on its current plans. Any shortfall will need to be met by future borrowing; any excess will have to be invested (unless existing borrowing is prematurely repaid). Refinancing risk, interest rate risk and credit risk can be minimised or reduced by ensuring that the existing loans portfolio shows a profile close to the liability benchmark.

In particular, the liability benchmark identifies the maturities needed for new borrowing

to match future liabilities. It therefore avoids borrowing for too long or too short.

Liability Benchmark



