NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT STRATEGY 2025/26

Report of the Treasurer to the Fire Authority

Date: 28 February 2025

Purpose of Report:

To seek the approval of Members for the proposed Treasury Management Strategy for 2025/26 and the Authority's Minimum Revenue Provision Policy for 2025/26.

Recommendations:

It is recommended that Members approve:

- The Treasury Management Strategy 2025/26 as set out in this report;
- The Minimum Revenue Provision Policy for 2025/26 as set out in Sections 2.53 to 2.58;
- The Treasury Management Practices as set out.

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1. BACKGROUND

1.1 The Local Government Act 2003 requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy; this sets out the Authority's policies for borrowing, for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk appetite, ensuring adequate security and liquidity before considering investment return.

1.3 The second main function of the treasury management operation is the funding of the Authority's capital plans. These capital plans provide 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. The management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet cost or risk objectives.

1.4 Treasury management is defined by CIPFA as *"the management of the local authority's borrowing, 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 treasury management function makes an important contribution to the Authority as the balance of debt and investment operations ensures the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves, it is paramount to ensure the adequate security of sums invested, as the loss of principal will in effect result in a loss to the General Fund Balance.

1.5 The Authority adopted the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2009 (the Code) on 9 April 2010. It has subsequently been updated, with the most recent revision being published in December 2021. Many of the changes in the revised Code are concerned with commercial and service investment practices and so have a limited impact on the Authority. The revised Code includes the following requirements:

1. A requirement for the Authority to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. Details of this indicator can be found in the

separate report on the Prudential Code for Capital Finance, also on the agenda at this meeting.

2. Ensuring that any long-term treasury investment is supported by a business case.

3. An amendment to the Treasury Management Practice (TMP) to address Environment, Social and Governance policy within the treasury management risk framework.

4. An amendment to the knowledge and skills register for individuals involved in the treasury management function, to be proportionate to the size and complexity of the treasury management conducted by each authority.

5. Reporting to Members is to be done quarterly. Performance against prudential indicators will be reported as part of the Authority's integrated revenue, capital and prudential monitoring reports which are presented to the Finance and Resources Committee on a quarterly basis. A mid-year treasury update and a backward looking annual report will be presented annually to the Fire Authority.

1.6 The 2021 edition of the Code recommends that the following clauses are adopted by public service organisations as part of their financial regulations or other formal policy documents:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies, objectives and approach to risk management of the Authority's treasury management activities (see appendix A).

2. The creation and maintenance of suitable Treasury Management Practices (TMPs) which set out the manner in which the Authority will seek to achieve those policies and objectives and prescribing how it will manage and control these activities.

3. The creation and maintenance of suitable investment management practices for any investments that are not for treasury management purposes.

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. This Authority delegates the role of scrutinising the treasury management strategy and policies to the Finance and Resources Committee.

5. Receipt by the Fire Authority of an annual Treasury Management Strategy Statement for the year ahead, a mid-year review report and an annual report covering activities during the previous year. Members of the Finance and Resources Committee will receive a quarterly monitoring report comprised of updated Treasury/Prudential Indicators.

6. This Authority nominates the Treasurer to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.7 The Treasury Management Practices have been reviewed and updated to reflect the clauses identified in 1.5 and 1.6. The revised TMP's are attached as Appendix H for approval. The Authority's Financial Regulations are being reviewed and updated as part of a wider governance review in 2025/26.

1.8 A report on the Prudential Code for Capital Finance is also on this agenda. This report sets out the prudential indicators for 2025/26, which are designed to ensure that the Authority's capital investment plans are affordable, prudent and sustainable and are in accordance with CIPFA's Prudential Code. The Prudential Code was revised in December 2021. One of the key changes in the revised edition of the Prudential Code is the explicitly stated requirement that authorities must not borrow to invest primarily for financial return. The Prudential Code also includes a requirement to prepare a Capital Strategy – this was approved as part of the Medium-Term Financial Strategy by Fire Authority on 13 December 2024.

1.9 This Treasury Management Strategy report is complementary to the Prudential Code report and the proposed prudential and treasury limits for 2025/26 are included in both reports for completeness.

1.10 This report also sets out the Authority's Minimum Revenue Provision policy for 2025/26 for approval by Members in paragraphs 2.53 to 2.58.

1.11 The Authority has appointed Mitsubishi UFJ Financial Group (MUFG) Corporate Markets Treasury Limited (formerly Link Asset Services) as its external treasury management adviser. MUFGhas provided the Authority with its view on the economic outlook and on anticipated interest rates for the forthcoming year.

2. REPORT

TREASURY MANAGEMENT STRATEGY FOR 2025/26

2.1 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.

2.2 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy: this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 The suggested strategy for 2025/26 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, MUFG.

2.4 The strategy covers:

- Prudential and treasury indicators;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy;
- Policy on use of external service providers;
- The Minimum Revenue Provision policy;
- Training of Officers and Members.

2.5 The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

BALANCED BUDGET REQUIREMENT

2.6 It is a statutory requirement under Section 32 of the Local Government Finance Act 1992 for the Authority to produce a balanced budget. A local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This includes a statutory requirement to make a prudent provision for an annual contribution from its revenue budget towards the reduction in its overall borrowing requirement. This charge is known as the Minimum Revenue Provision (MRP). This means that increases in capital expenditure must be limited to a level whereby increases in the following charges to revenue remain affordable within the projected income of the Authority for the foreseeable future:

- Increases in interest charges caused by increased borrowing to finance additional capital expenditure;

- Any increases in running costs from new capital projects, and

- Any increases in the Minimum Revenue Provision.

ECONOMIC BACKGROUND

2.7 Latest economic data:

- In Q3 2024 UK GDP was flat (0.0% growth), compared with 0.4% growth in Q2. Despite the current lack of growth and the deterioration in the global outlook, analysts think that lower inflation and lower interest rates will contribute to stronger growth in 2025. GDP growth is forecast to accelerate from 0.9% in 2024 to 1.6% in both 2025 and 2026.

- The Bank of England base rate was reduced from 5% to 4.75% in November 2024. Investors are currently anticipating further cuts to 4.0% during 2025.

- CPI inflation was 2.5% in December 2024, down from 2.6% in the previous month. The CPI inflation rate is expected by most forecasters to remain above the Bank of England's 2% target during most, if not all, of 2025. It is likely to return to 2.0% in 2026, but there is uncertainty around the impact of potential inflationary aspects of the Autumn Budget as well as the influence of overseas developments such as the outcome of the US election.

- The UK labour market remains tight but is gradually loosening as workforce growth pick up and hiring remains subdued. However, average earnings (excluding bonuses) rose at an annual rate of 5.6% in the three months to November 2024. Growth was particularly strong in the private sector, at 6.0%.

2.8 Recent volatility in the bond markets saw UK gilt yields spiking at levels not seen since the 2008 financial crisis. The higher yields seen in the first half of January 2025 are largely thought to be due to international factors, as the sharp uptick in US government bond yields has had a knock-on effect to other bond markets. However, UK yields increased more than in other markets, possibly due to concerns about higher inflation and the UK fiscal deficit.

2.9 A comprehensive economic summary was prepared by MUFG Corporate Markets Treasury Limited on 12th December 2024, which provides analysis and commentary. This summary can be found at appendix B.

2.10 The latest interest rate forecasts from MUFG Corporate Markets Treasury Limited can be found at appendix C.

MANAGEMENT OF CASH RESOURCES

2.11 The Authority uses a main current account, an investment account and a petty cash account. All of these accounts are held with Barclays Bank PLC and are managed online. This system allows the Authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained at a minimum level. All surplus funds are held either in the investment account for short periods or are lent to institutional borrowers over longer periods.

2.12 The bank overdraft level is £200,000 and this is usually sufficient. It is possible for temporary arrangements to be made to increase the limit to £500,000 if required. The authorised limit included in the Prudential Code report provides for an overdraft limit of £500,000 to allow for such instances. It is proposed that the day-to-day overdraft facility remains at a level of £200,000.

2.13 Part of the treasury management operation is to ensure that cash flows are adequately planned, with cash being available when it is needed. A 3-year cash flow projection is prepared together with a 3-month rolling cash flow forecast. The 3-month forecast is updated regularly, and this process reveals when cash surpluses or shortages are likely to arise.

2.14 Cash management processes have been examined by internal auditors during March 2021 and have been shown to be robust.

BORROWING STRATEGY

2.15 The prudential indicators for borrowing are set out in appendix D. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2025/26 report which is elsewhere on this agenda.

2.16 The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2025/26 this figure is estimated at £43.001m. This figure is comprised of capital expenditure incurred historically by the Authority that has yet to be financed plus estimated capital expenditure and capital financing for 2024/25 and 2025/26.

2.17 The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (with the exception of a £4m bank loan which was taken in 2007/08). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. PWLB rates are set at a margin of 80 basis points above gilt yields. Officers will work with treasury advisors to carefully consider all funding options before undertaking any further long-term borrowing. The Liability Benchmark indicator also provides a guide to the level and duration of borrowing that is required. Information about the Liability Benchmark can be found in the report on the Prudential Code for Capital Finance which is also on this agenda. The Authority will consider fixed rate market borrowing when rates are lower than PWLB rates. The Authority may also consider loans from the UK's Municipal Bond Agency and other local authorities.

2.18 The bank loan of £4m referred to in paragraph 2.17 is structured as a "Lender Option Borrower Option (LOBO)" loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long-term debt at a lower rate depending on which is the most advantageous option for the Authority. The next opportunity for a revision of the interest rate is 7 March 2028.

2.19 Over the next four years, it is anticipated that the Authority will need to borrow up to £14.9m to finance the capital programme.

2.20 MUFG's current view on future PWLB interest rates is:

	Mar 25	Jun 25	Sep 25	Dec 25	Mar 26	Mar 27
5 year PWLB	4.90%	4.80%	4.60%	4.50%	4.50%	4.10%
10 year PWLB	5.10%	5.00%	4.80%	4.80%	4.70%	4.30%
25 year PWLB	5.50%	5.40%	5.30%	5.20%	5.10%	4.70%
50 year PWLB	5.30%	5.20%	5.10%	5.00%	4.90%	4.50%

2.21 The PWLB certainty rates shown in the above table are based on gilt yields plus 80 basis points.

2.22 The Authority's borrowing strategy will be based upon the following information:

- A combination of capital receipts, internal funds and borrowing will be used to finance capital expenditure in 2025/26 and beyond.

- Three PWLB loans will mature in during the next five years (£1m in 2026/27, £1m in 2027/28 and £1.5m in 2028/29). These repayments will need to be financed. It is estimated that total new borrowing in the period 2025/26 to 2029/30 could be in the region of £23.0m, if the capital programme is funded through external rather than internal borrowing.

- MUFG's view is that interest rates are likely to decline over the next three years, albeit slowly. Overall, better value can be found at the shorter end of the yield curve, so short-dated borrowing from the PWLB or other Local Authorities will be considered. New loans will be deferred where possible, subject to the availability and prudent management of internal funds. Short-term borrowing can then be replaced with longer-term loans when rates become more favourable, as this will have a lesser impact on the revenue budget for the periods of the loans.

- Whilst the PWLB will remain the main source of borrowing, consideration will also be given to sourcing funding from local authorities, financial institutions and the Municipal Bonds Agency.

- PWLB rates on loans of 25 years duration are expected to be higher than the rates for shorter- and longer-term loans. However, the existing debt maturity profile of the Authority will also be considered when decisions are made regarding the duration of new borrowing, as will the new Liability Benchmark indicator. The Authority will strive to seek a balance between securing the most advantageous rate whilst ensuring that it is not unduly exposed to re-financing risk.

- The whole-life costs of maturity loans can be less than those of equivalent annuity or EIP (equal instalments of principal) loans. However, sole reliance on maturity loans can increase the risk of future breaches of the capital financing requirement. It can also lead to future levels of excess borrowing which then have to be invested, resulting in a level of treasury investments above that reasonably required for liquidity. This can increase the Authority's exposure to risk. All these factors will be considered before future borrowing decisions are made.

2.23 Ordinarily the Authority will seek to keep its level of external borrowing in line with its capital financing requirement (CFR), or to maintain an under-borrowed position where the CFR has not been fully funded by external debt. In an under-borrowed position the Authority uses the cash supporting its reserves and balances to temporarily finance capital expenditure. The use of cash balances in this way is known as "internal borrowing", and this strategy can be prudent if investment returns are lower than borrowing rates. It also eliminates counterparty risk. However, it is recognised that internal borrowing brings a different kind of risk, as there is a chance that balances may need to be replenished at a time when interest rates are higher. In this respect, internal borrowing is effectively variable rate debt. For this reason, the Authority has a local indicator that limits the level of internal borrowing to 20% of the underlying borrowing requirement. Occasionally the Authority may maintain an over-borrowed position where the level of borrowing exceeds its CFR. For example, if interest rates are expected to rise sharply it may be prudent to borrow in advance of future need in order to secure borrowing at a reasonable rate.

2.24 Officers, in conjunction with treasury advisors, will continually monitor both the prevailing interest rates and market forecasts, adopting the following responses to a change in position:

- if it were felt that there was a significant risk of a sharp **fall** in long- and short-term rates then long-term borrowings will be postponed.

- if it were felt that there was a significant risk of a much sharper **rise** in long- and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they are projected to be in the next few years.

2.25 The Authority's gross debt position is projected to be £34.4m by the end of 2024/25, compared with an estimated CFR of £39.8m. The CFR is set to increase in the medium term due to the impact of the proposed capital programme for 2025/26 to 2028/29. Borrowing will therefore be required during this period. Interest rates are forecast to decrease slowly over the next three years, and the Authority will monitor rate changes closely when determining when the time is right to borrow.

2.26 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure value for money can be demonstrated, and that the Authority can ensure the security of funds invested. In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that such borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy;

- Ensure that the ongoing 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 alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.27 Where the Authority decides to defer long-term borrowing either in order to benefit from a forecasted reduction in interest rates or to avoid unnecessary carrying costs, it may undertake short-term borrowing to alleviate temporary cash shortages caused by internally borrowing cash balances to support capital expenditure.

2.28 The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. Rescheduling of current borrowing in the debt portfolio may be considered whilst premature redemption rates remain elevated, but only if there is surplus cash available to facilitate any repayment or the rebalancing of the portfolio is considered appropriate.

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

2.29 The Authority will have regard to the Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021, and the CIPFA Treasury Management Guidance Notes 2021. The Authority's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. In the current economic climate, it is considered appropriate to maintain a degree of liquidity but also to consider investments for periods of up to 12 months with high credit rated financial institutions while investment rates remain elevated. The use of "laddering" can be an effective way to ensure sufficient liquidity of funds whilst securing the higher interest rates that can be associated with longer term investments, and this technique will be considered where appropriate. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

2.30 The MHCLG and CIPFA have extended the meaning of "investments" to include both financial and non-financial investments. This Investment Strategy deals solely with financial investments. The Authority does not currently have non-financial investments. Any future non-investment activity (essentially the purchase of income yielding assets) would be covered by the Capital Strategy.

2.31 The guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor the counterparties are the short term and long-term ratings.

2. **Other information**: ratings are not 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. 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. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

3. MHCLG's Guidance on Local Government Investments groups financial investments into one of three categories:

   - **Specified investments** are those with a high level of credit quality and are subject to a maturity limit of one year. They are denominated in sterling and any payments or repayments in respect of the investments are payable only in sterling.
   - **Loans** are made to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategic goal.

Such loans might not be seen as prudent if adopting a narrow definition of prioritising security or liquidity, but may be acceptable in the wider context of the Authority's strategic aims.

- **Non-specified investments** are any financial investments that are not a loan and do not meet the criteria to be treated as a specified investment.

This Authority will not invest in financial instruments that are categorised as "non-specified", with the exception of instruments with a maturity of more than one year that would otherwise meet the criteria of a "specified" investment. The Authority's criteria for specified investments can be found in appendix E, and the policy regarding loans is detailed in paragraph 2.48.

4. **Lending limits** (amounts and maturity) for each counterparty will be set in accordance with the guidelines detailed in appendix E.

5. The Authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 2.44).

6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 2.41).

7. The Authority has engaged **external consultants** (see paragraph 1.11) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield in the context of the expected level of cash balances and the need through liquidity throughout the year, given the Authority's risk appetite.

8. All investments will be denominated in **sterling.**

9. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018 the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. More recently, a further extension to the override to 31 March 2025 has been agreed. This Authority holds no investment instruments that will be affected by this change.

The above criteria are unchanged from the previous year.

2.32 Following a review of the Authority's Treasury Management Practices, changes have been made to the counterparty limits for specified investments. The £4m counterparty lending limit for term deposits and notice accounts has been extended to cover institutions that are members of the same banking group, as well as individual institutions. An exception is to be made for 1 day notice accounts, as the high level of liquidity mitigates the counterparty risk presented by investing more than £4m with institutions within the same banking group. The £4m limit per institution remains in place for 1 day notice accounts.

2.33 The Authority will pursue value for money in its treasury management activity and will monitor yield from investment income against appropriate benchmarks for investment performance (see paragraphs 2.49 to 2.52). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

2.34 The Authority applies creditworthiness service provided by MUFG. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. It is recognised that ratings should not be the sole determinant of the quality of an institution, and MUFG's creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

2.35 This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and enable diversification in investments. These colour codes are used by the Authority to determine both the creditworthiness of institutions and the duration for investments. It is regarded as an essential tool, which the Authority would not be able to replicate using in-house resources.

2.36 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within MUFG's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Purple band - 24 months
- Blue band - 12 months (only applies to nationalised or semi-nationalised UK banks)
- Orange band – 12 months
- Red band - 6 months
- Green band - 100 days

2.37 The MUFG creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just once agency's ratings. Typically, the minimum credit ratings criteria the Authority use will be a short-term rating (Fitch or equivalent) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical information, to support their use.

2.38 The Authority is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service. If a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately and consideration will be given to withdrawing any amounts held in notice accounts. In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx European Senior Financials benchmark and other market data via MUFG's Passport website on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.39 Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

2.40 CDS prices are market indicators of credit risk. Although bank CDS prices spiked upwards during the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, market sentiment can easily shift so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG monitors CDS prices as part of their creditworthiness service, and the Authority has access to this information via the Passport portal provided by MUFG.

Country Limits

2.41 The Authority has previously determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in appendix F. This list will be added to or deducted from by Officers should ratings change in accordance with this policy. An exception to this policy is made for the UK, which is currently rated as AA-. The Authority will not set a minimum sovereign rating for the UK, instead it will continue to use UK counterparties subject to the creditworthiness criteria outlined in paragraph 2.36.

Environmental, Social and Governance (ESG)

2.42 One of the requirements of the revised Treasury Management Code of Practice is that the Authority adopts a policy relating to ESG considerations. This policy can be found at appendix G.

Investment Strategy

2.43 Investments will be made with reference to the core balance and cash flow requirements of the Authority, and the outlook for short term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggest that the risks are relatively balanced between the Bank Rate staying higher for longer if inflation picks up markedly during 2025, or it being cut quicker than expected if the economy stagnates. Accordingly, while most cash balances are required in order to manage fluctuations in cash flow, it may sometimes be possible to identify cash sums that could be invested for longer periods. Should this be the case, the value to be obtained from longer term investments will be carefully assessed:

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or at variable rates.
- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in the higher rates currently obtainable, for longer periods.

2.44 Latest forecasts from MUFG show Bank Rate falling to a low of 3.5% in 2026 (see appendix C). An agile investment strategy is appropriate in order to optimise returns. Approval will be sought from the Treasurer before investing sums for a period greater than one year. The Authority will avoid locking into longer term deals unless exceptionally attractive rates are available which make longer terms deals worthwhile. The proposed upper limit for principal sums invested for periods longer than 365 days is £2m (see the Prudential and Treasury Indicators in appendix D).

2.45 In accordance with its low-risk appetite, the Authority may undertake the following types of “specified” investments:

- Deposits with the Debt Management Office (Government)
- Term deposits with Banks and Building Societies
- Call deposits with Banks and Building Societies
- Term Deposits with uncapped English and Welsh local authority bodies
- AAA rated Money Market Funds (CNAV and LVNAV)
- UK Treasury Bills
- Certificates of Deposit

2.46 The Authority currently accesses counterparties directly or via a broker, and officers also have the option to access counterparties via MUFG’s Agency

Treasury Service. The Agency Treasury Service pools investments from MUFG's clients and places them with counterparties.

2.47 A summary of the criteria for specified investments is shown in appendix E. With the exception of the maximum maturity period, the same criteria shall apply to investments that are classified as non-specified due to their longer duration, which may exceed 12 months.

2.48 In addition to specified investments, the Authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures if doing so would contribute to its wider strategic goals. Before making such a loan the Authority would seek approval from the Finance and Resources Committee, having demonstrated the following:

- The total financial exposure to the loan is proportionate;
- An allowed "expected credit loss" model for loans and receivables as set out in International Financial Reporting Standard 9 can be applied to measure the credit risk of the loan portfolio; and
- Appropriate credit control arrangements are in place to recover overdue payments.

Investment Risk Benchmarking

2.49 The Authority has adopted benchmarks to assess the security, liquidity and yield of its investments. These benchmarks are simple guides to maximum risk, so may be breached from time to time depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach will be reported with supporting reasons in the Treasury Management Mid-year or Annual Report.

2.50 **Security:** security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of the creditworthiness service provided by MUFG. Typically, the minimum credit criteria used by the Authority equates to a long-term rating of A- (Fitch or equivalent). This means that the average expectation of default is around 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average, and any specific counterparty loss is likely to be higher, however these figures can be used as a benchmark for the security of the investment portfolio.

It is suggested that the Authority adopt a maximum security risk benchmark of **0.05%** historic risk of default when compared to the whole portfolio.

2.51 **Liquidity:** this is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Authority seeks to maintain:

- A bank overdraft of £500k
- Adequate liquid short term deposits available at a week's notice

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio. A shorter WAL would generally embody less risk.

The WAL benchmark is **approximately 3 months**, with a recommended maximum limit of **0.40 years.**

2.52 **Yield:** the local measure of yield benchmark is:

Investments – internal returns **above the 3 month SONIA compounded rate**

MINIMUM REVENUE PROVISION POLICY 2025/26

2.53 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were provisions dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.

2.54 Regulation 27 of the 2003 Regulations requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR. In doing so, local authorities "should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits". The 2003 Regulations have been further amended with effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

2.55 The MRP Guidance 2024 sets out four ready-made options for calculating MRP, two of which form the basis of the MRP policy recommended to members.

2.56 The following policy on MRP is therefore recommended to members and budgetary provision for MRP has been made on this basis:

- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2025/26 will be calculated on the basis of the 4% CFR (capital financing requirement) method. This method will continue to be used in future years for capital expenditure incurred during or before 2006/07.

- For borrowing and credit arrangements (excluding leases) to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2025/26 will be calculated on the basis of the asset life method (straight line).

- Regulation 27(3) allows an authority to charge MRP in the financial year following the one in which capital expenditure financed by debt was incurred. Capital expenditure financed by borrowing in 202/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one in which the asset first becomes available for use.

- The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

- For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

- Where a right-of-use (leased) asset is on the balance sheet, the prudent MRP charge to revenue will be regarded as equal to the element of the rent/charge that goes to write down the balance sheet liability.

2.57 The regulations also allow for Voluntary Revenue Provision (VRP) charges to be made. A VRP charge would be in addition to the MRP charge, and would have the effect of reducing MRP charges in future years, resulting in revenue budget savings. If the situation arises in the year whereby Officers feel that a VRP charge would be advantageous (e.g. if there are revenue budget underspends), then a recommendation will be made to Finance and Resources Committee to approve a VRP charge..

2.58 A change introduced by the revised MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 24 the total VRP overpayments were £1.921m.

TRAINING OF OFFICERS AND MEMBERS

2.59 Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes. The training needs of treasury management officers are periodically reviewed as part of the Performance Development Review process. A knowledge and skills register is being developed which will help to identify any further training needs and enable to employees' training activities to be monitored more effectively.

2.60 It is also suggested that those tasked with treasury management scrutiny responsibilities have access to suitable training. A training session will be planned during 2025/26.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITIES AND ETHICAL IMPLICATIONS

An equality impact assessment has not been undertaken because this is not a new policy or service.

6. ENVIRONMENTAL AND SUSTAINABILITY IMPLICATIONS

There are no environmental implications arising from this report. This report serves to ensure that the financial sustainability of the Authority is maintained.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using creditworthiness indices will minimise this risk. This prudent approach will undoubtedly result in some interest rate loss but the principles of security and liquidity are paramount.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members approve:

10.1 The Treasury Management Strategy 2025/26 as set out in this report.

10.2 The Minimum Revenue Provision Policy for 2025/26 as set out in Sections 2.53 to 2.58.

10.3 Treasury Management Practices as set out.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Bev Bull
TREASURER TO THE FIRE ATHORITY

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT

1. 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”.

2. The 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.

3. The 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.

APPENDIX B

ECONOMIC SUMMARY (to 12th December 2024)

Prepared by MUFG Corporate Markets Treasury Limited

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

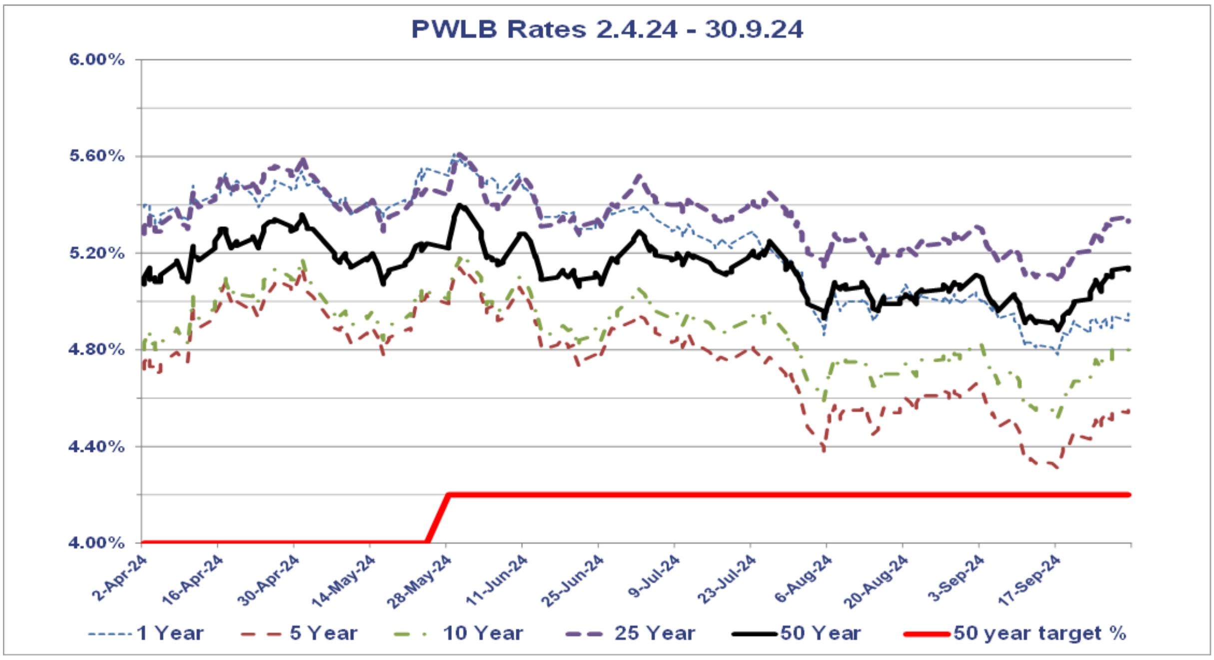
The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

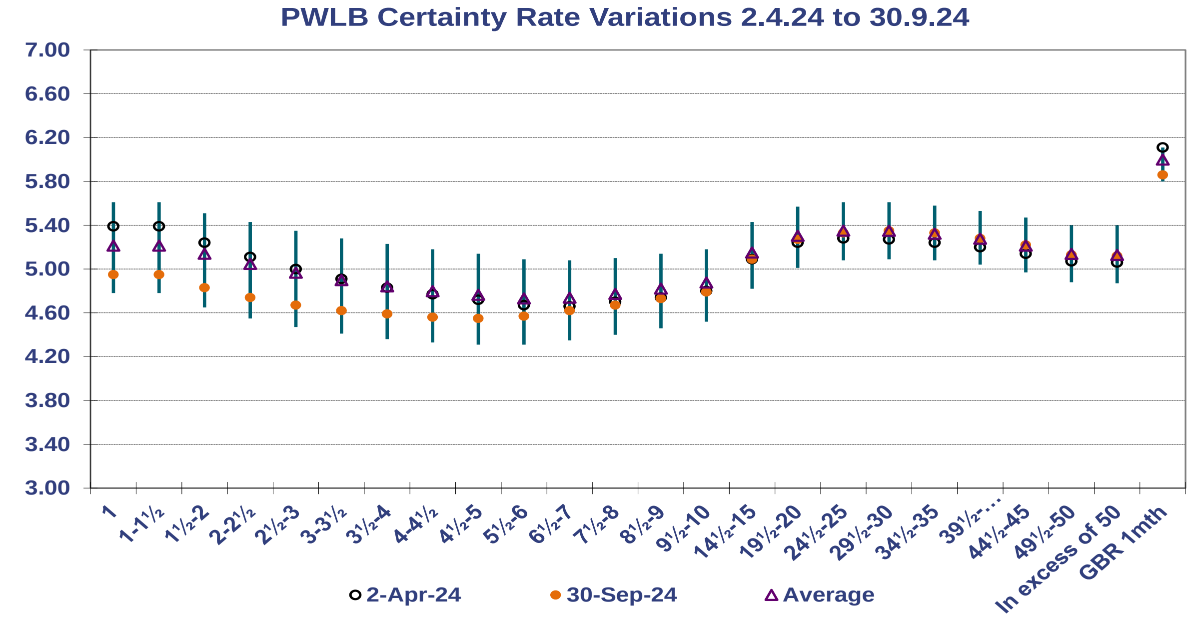
MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

APPENDIX C

INTEREST RATE FORECASTS 2024-2027

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

PWLB forecasts are based on PWLB certainty rates (gilt yields plus 80 basis points)

APPENDIX D

PRUDENTIAL AND TREASURY INDICATORS FOR 2025/26

Maximum ratio of Financing Costs to Net Revenue Stream	8.0%
Estimate of Ratio of Financing Costs to Net Revenue Stream	6.2%
Estimate of Total Capital Expenditure to be Incurred	£8.490m
Estimate of Capital Financing Requirement	£43.001m
Operational Boundary	£46.234m
Authorised Limit	£51.637m
Upper limit for fixed rate interest exposures	100%
Upper limit for variable rate interest exposures	30%
Loan Maturity:	Limits:
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 30% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 0%
Over 20 years	Upper 100% Lower 30%
Upper Limit for Principal Sums Invested for Periods Longer than 365 Days	£2,000,000

LOCAL INDICATORS FOR 2025/26

Upper limit for internal borrowing as a % of the Capital Financing Requirement	20%
Lower limit for proportion of net debt to gross debt	50%
Upper limit for proportion of net debt to gross debt	85%
Investment security benchmark: maximum historic default risk of investment portfolio	0.05%
Investment liquidity benchmark: maximum weighted average life of investment portfolio	0.40 years
Investment yield benchmark	Internal returns to be above 3 month compounded SONIA rate

APPENDIX E

SPECIFIED INVESTMENTS: CREDIT AND COUNTERPARTY RISK

Investment category	Minimum credit criteria / colour band	Sovereign credit rating	Category as a % of total investments	Total limit per institution* / fund	Max. maturity period
Term deposits with banks and building societies	Purple (24 months) Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	100%	Lower of £4m per institution/banking group OR 50% of investment portfolio	As per durational banding, subject to limit of 12 months
Notice accounts with banks and building societies (excluding 1 day notice accounts)	Purple (24 months) Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	100%	Lower of £4m per institution/banking group OR 50% of investment portfolio	Minimum notice period to be as per durational banding (subject to limit of 12 months). The total period of investment may be greater than 12 months
1 day notice accounts with banks and building societies	Purple (24 months) Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	100%	Lower of £4m per institution OR 50% of investment portfolio	Maximum notice period of 1 day. The total period of the investment may be greater than 12 months
Local authorities	N/A	N/A	100%	Lower of £4m per institution OR 50% of investment portfolio	12 months
Money Market Funds CNAV (government debt)	AAA	N/A	50%	£4m per fund	Liquid
Money Market Funds LVNAV	AAA	N/A	50%	£4m per fund	Liquid
UK Government Treasury Bills	UK sovereign rating	N/A	100%	N/A	12 months
Certificates of Deposit with banks and building societies	Purple (24 months) Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	50%	£4m per institution	As per durational banding, subject to limit of 12 months
Debt Management Account Deposit Facility (DMADF) – UK Government	N/A	N/A	100%	N/A	6 months

** The institution/banking group limit applies across all categories, i.e. it is the total amount that may be invested in the institution at any point in time (excluding any amounts invested in that institution by money market funds).*

APPENDIX F

APPROVED COUNTRIES FOR INVESTMENTS

AAA	AA+	AA
Australia	Canada	Abu Dhabi (UAE)
Denmark	Finland	Qatar
Germany	USA	
Netherlands		
Norway		
Singapore		
Sweden		
Switzerland		

This list is correct as at 30/01/2025

APPENDIX G

Policy on Environmental, Social and Governance (ESG) Considerations

1.1 Current investment guidance, both statutory and from CIPFA, makes it clear that all investment strategies must adopt Security, Liquidity and Yield (SLY) principles and that ethical principles must play a subordinate role to these key principles. Priority will therefore be given to security, liquidity and yield when investment decisions are made. ESG principles will only be accommodated once SLY requirements have been met.

1.2 ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties are detailed below. The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties.

- ***Environmental:*** *Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.*

- ***Social:*** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*

- ***Governance:*** *Management structure, governance structure, group structure, financial transparency.*

1.3 Currently, the assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical Treasury-type investments, is currently difficult to achieve.

1.4 The Authority is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG factors into the decision making process for investments where possible. The Authority is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Authority uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*

At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults. In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders. In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

With this in mind, we share a common vision ***to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness****."*

1.5 For short term investments with counterparties, this Authority utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Authority will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

TREASURY MANAGEMENT PRACTICES

Version 3.0

Prepared by:	Emma Brown
Signed by:	
Date:	07/02/2025

HISTORY OF AMENDMENTS TO THIS DOCUMENT

AMENDMENTS BY TREASURY MANAGEMENT CONSULTANTS

Dec 2004: major re-write of this template to take account of changes required by the Prudential Code

17.2.05: TMP 9 - references to Proceeds of Crime Act 2003 corrected to 2002.

8.12.06: update TMP 1.7.1 for 2006 English legislation and CIPFA Treasury Management Codes in 2004 and 2006

1.2.10: major amendments to incorporate changes from the revised 2009 CIPFA Treasury Management Code of Practice and Cross Sectoral Guidance Notes, Guidance Notes and Prudential Code

24.9.10 A Scottish TMP template was prepared separately from the English and Welsh template due to differences between these countries in investment principles etc.

25.1.12. Minor updating including changes due to the revised 2011 CIPFA TM Code and CLG and WAG investment guidance now being in final rather than draft form.

DERIVATIVES: the revised 2011 CIPFA Code of Practice on Treasury Management included references to organisations using derivatives / hedging instruments. The Localism Act 2011 appears to give local authorities legal power to use such instruments. As these are complex instruments which require a high level of expertise to understand and use, this development will require careful and detailed consideration before practical implementation of their use. For this reason, no references have been included for derivatives in this version of the Sector template for TMPs.

24.2.14 change of green colour from 95 days to 100 days due to changes in banking regulation for liquidity rules for banks

7.3.16 Updated paragraph 1.6.1. References to Relevant Statutes and Regulations

31.10.16 two minor amendments in paragraphs 9.3 and 11.1.1

9.1.17 Paragraph 1.6.1. list of legislation updated for English and Welsh authorities

25.10.17 various updating has been done throughout this template - see tracked changes.

- Section 1.6.1 Statutes and Codes updated.
- Capita Asset Services has been renamed to Link Group throughout this document.

12.3.18 This edition has been updated for changes resulting from the 2017 Treasury Management and Prudential Codes and, (for English local authorities), MHCLG guidance for investments and MRP.
An appendix has been added to this template to deal with non-treasury investments to provide an outline of CIPFA requirements.

The major changes required by the 2017 Codes are particularly in the area of investments in property. Although CIPFA has changed the definition of treasury management to include all non-financial investments, it also recognises that they are not treasury management investments.

- TMP 1 add additional schedule required to list counterparties and investment instruments where the authority has opted up to professional status
- TMP 1.6.1 The Non-Investment Products Code (NIPS) has been renamed as the UK Money Markets Guide.
- TMP 9 Money Laundering Regulations 2007 have been replaced by the Money Laundering Regulations 2017

12.3.18 v2 Amendment to original template version of this date. Move TMP 1 amendment as above to TMP 4.2.2. Implementation of MIFID II requirements. The wording has also been amended..

12.3.18 v3

- TMP 4.4 Local authority bills added
- TMP 4.7 Non-treasury management investments. Reminder to clients of the need for TMPs for non-treasury investments.
- TMP 5.4.1 Non Investment Products Code (NIPS Code) – renamed as UK Money Markets Code with effect from April 2017.TMP 6.1 Additional wording on capital strategy
- TMP 9.3 Add additional requirements imposed by MLR regs 2017
- Appendix. Wording amended to version as per final CIPFA TM Code

29.3.19

- 1.5.3 The Prudential Code references have been updated as per the Prudential Code 2017.
- 1.6.1 and 1.6.2 various additions

27.2.20

1.6.1 update list of statutes

21.2.22

The aim of this update is to include changes due to be implemented as a result of the CIPFA 2022 revised treasury management and prudential codes, although the reporting requirements, (including changes in capital strategy, prudential indicators and investment reporting), may be delayed until 2023/34.

AMENDMENTS BY NFRS

November 2013: Full update to tailor practices to those of NFRS and incorporate elements of practice as described in existing NFRS documents. Changes tracked.

November 2013: Changes accepted (changes are detailed via tracking in Treasury Management Practices Capita Template Jan 2012 UPDATED.doc).

November 2013: Minor grammatical and format changes.

September 2016: changes accepted (changed are detailed via tracking in Treasury Management Practices Capita Template Feb 2014 Updated.doc and Treasury Management Practices Capita Template Mar 2016.doc

September 2016: Minor changes to internal processes, for example regarding frequency of bank reconciliation, and adding borrowing from local authorities directly.

January 2025: Full review and update to incorporate changes made in the 2021 edition of the CIPFA Treasury Management Code of Practice (changes are detailed via tracking in Treasury Management Practices updated Jan 2025 (changes tracked) new format.doc)

Contents

TMP1 Risk Management

This organisation regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Fire Authority Treasurer will be responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk, will report annually to the Fire Authority 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.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key 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 into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This organisation will use the Link Treasury Solutions creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- Purple 24 months
- Blue 12 months (only applies to nationalised or semi nationalised UK Banks)
- Orange 12 months
- Red 6 months
- Green 100 days
- No colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Link "Treasury solutions Credit Policy Guide" for a full explanation.

1. NFRS will use credit criteria in order to select creditworthy counterparties for placing investments with.

2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors.

3. Treasury Management Consultants (Link) will provide regular updates of changes to all ratings relevant to NFRS.

4. The Treasurer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. This will form part of the Annual Investment Strategy, which is included in the annual Treasury Management Strategy and is updated as required.

5. Credit ratings for individual counterparties can change at any time. For the purposes of the Authority, approved counterparties are those with Purple, Blue, Orange, Red or Green ratings. Such approved counterparties may be used to make investments with maturity periods appropriate for their colour rating. Investments exceeding 365 days will not be made without the prior approval of the Treasurer.

6. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

7. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

    - the quality financial press;
    - market data;
    - information on government support for banks, and;
    - the credit ratings of that government support.

8. Maximum maturity periods and amounts to be placed in different types of investment instrument. An up-to-date list of the limits is included as appendix E of the current Treasury Management Strategy.

9. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

    - Maximum amount to be placed with any one institution: lower of £4m or 50% of the investment portfolio balance (excluding current account and business premium account balances).
    - Group limits where a number of institutions are under one ownership and the account notice period is greater than 1 day: lower of £4m or 50% of the investment portfolio balance (excluding current account and business

premium account balances). Where the notice period of the account is 1 day the group limit does not apply.

- The provider of the Authority's current bank account is the only exception to these limits.

- It is noted that imposing any further spreading requirement due to the relatively small size of the Authority's investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.

10. Country limits – a minimum sovereign rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). An exception to this policy is made for the UK. NFRS will continue to use counterparties from the UK in the event that its sovereign rating moves below AA, subject to the creditworthiness found in paragraph 5.

11. The definition of **'high credit quality':** in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings, the list of approved high credit quality specified investments is as follows:

    - Deposits with the Debt Management Office (Government)
    - Term deposits with banks and building societies
    - Call deposits with banks and building societies
    - Term deposits with uncapped English and Welsh local authority bodies
    - Triple-A rated money market funds (CNAV and LVNAV)
    - UK Treasury Bills
    - Certificates of Deposit

12. Full individual listing of counterparties and counterparty limits, and country limits, are held by the treasury management team, and will be made available to members as required.

1.1.2. Policy on environmental, social and governance (ESG) considerations

Typical ESG considerations are shown below. Please note that these are examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties. The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties.

- ***Environmental:*** *Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.*

- ***Social:*** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*

- ***Governance:*** *Management structure, governance structure, group structure, financial transparency.*

Current investment guidance, both statutory and from CIPFA, makes it clear that all investment strategies must adopt Security, Liquidity and Yield (SLY) principles, and that ethical principles must play a subordinate role to these key principles. Priority will therefore be given to security, liquidity and yield (SLY) when investment decisions are made. ESG principles will only be accommodated once SLY requirements have been met.

Currently, the assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical Treasury-type investments, is currently difficult to achieve.

The Authority is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG factors into the decision making process for investments where possible. The Authority is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Authority uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*
>
> *At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*
>
> *In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*
>
> *In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*

With this in mind, we share a common vision ***to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness****."*

For short term investments with counterparties, this Authority utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Authority will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

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

The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons:

- to fund the current capital programme
- to finance future debt maturities, or
- to ensure an adequate level of short-term investments to provide liquidity for the Authority

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Authority's main bank accounts at the close of each working day, with remaining balances placed in an overnight deposit account with the Authority's main banking provider. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities
   At the end of each financial day any unexpected surplus funds are manually transferred to the investment account (Business Premium Account) which is available from the Authority's main bank, Barclays Bank PLC.
b. Bank overdraft arrangements
   A £200,000 overdraft at 2% over base rate has been agreed as part of the banking services contract. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The overdraft is assessed on a group basis for the Authority's accounts.
c. Short-term borrowing facilities
   The Authority may access, with appropriate approval, temporary loans through approved brokers on the London money market, or borrow directly from other local authorities.
d. Insurance/guarantee facilities
   There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Large payments notice required
   Notice is to be given to the Treasury Finance Officer of all payments equal to or exceeding £10,000.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this 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. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications. The Annual Treasury Management Statement includes details of approved interest rate exposure limits, and other guidelines for managing changes to interest rate levels, and upper limits for fixed and variable interest rate exposure.

1.3.1 Policies concerning the use of instruments for interest rate management.

a. Forward dealing
   Consideration will be given to dealing from forward periods dependent upon market conditions, subject to the approval of the Treasurer.

b. Callable deposits
   The Authority will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

c. LOBOS (borrowing under lender's option/borrower's option)
   Use of LOBOs is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Treasurer.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

If relevant situations arise, the Authority will manage its exposure to fluctuations in exchange rates in order to minimise any detrimental impact on its budgeted income/expenditure levels, and appropriate methods will be detailed in the Treasury Management Strategy Statement.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation 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 overreliance on any one source of funding if this might jeopardise achievement of the above.

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Authority will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio;
d) to transfer from maturity to annuity loans to maintain gross debt below the Capital Financing Requirement in the short to medium term.

Rescheduling will be reported to Members at the earliest meeting following its action.

1.5.2. Projected Capital Investment Requirements

The responsible officer will delegate the preparation of a four-year plan for capital expenditure for the Authority. The capital plan will be used to prepare a four-year revenue budget for all forms of financing charges.

In addition, the responsible officer will draw up a capital strategy report which will give a longer-term view. The definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Authority will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the three following years and the impact these will have on the council tax precept. It will also take into account affordability in the longer term beyond this four year period.

The Authority will use the definitions provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, commercial property, debt, financing costs, investments, net revenue stream, other long term liabilities, treasury management and transferred debt.

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of 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[1] 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 effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation 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.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Authority shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Authority. These are:

English Authorities

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007

- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- *There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016*
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2021 no. 611 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2021

Guidance and codes of practice

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners' latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002

- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities and Guidance Notes revised 2021

- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

- PWLB circulars on Lending Policy
- The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority.)

- The Authority's Standing Orders relating to Contracts
- The Authority's Financial Regulations
- The Authority's Scheme of Delegated Functions
-

1.6.2. Procedures for Evidencing the Authority's Powers/Authorities to Counterparties

The Authority's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the following: -

a. the scheme of delegation of treasury management activities which is contained in the Financial Regulations which states which officers carry out these duties
b. the document which sets which officers are the authorised signatories.

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Authority's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the Authority's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Authority, the Chief Fire Officer and the Leader of the Authority to respond to and manage appropriately political risks such as change of majority group, change of leadership of the Authority or of Councils within the Authority's operational boundaries, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Clerk to the Fire Authority; the duty of this officer is to ensure that the treasury management activities of the Authority are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Treasurer; the duty of this officer is to ensure that the financial affairs of the Authority are conducted in a prudent manner and to make a report to the Authority if they have concerns as to the financial prudence of its actions or its expected financial position.

1.7 Operational risk, including fraud, error and corruption

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation 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.

The Authority will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.

b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

c) Not allow staff to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

d) Maintain records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1 Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan and Investments procedures are defined in the annual Treasury Management Strategy and in the Treasury Management Procedures.

Procedures

- Banking through Barclays is carried out via the Barclays Internet Banking (BIB) system, with authorisation by chip and pin for approved finance officers.
- Treasury procedure notes and records are maintained by the Treasury Finance Officer and are saved in the Treasury Management folder on the Finance "F" drive.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained and reconciled to the Agresso system.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Senior Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Senior Accountant for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The treasury management records include maturity dates which are monitored regularly.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Authority invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Authority's bank holds a list of Authority officials who are authorised signatories for treasury management transactions.
- Initiation and authorisation of banking transactions are completed by separate officers, as required by the BIB system.

- The treasury management records cannot be accessed by colleagues outside of the finance team.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly within the Agresso system.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the treasury management team.
- Periodic interest payments of PWLB and other long-term loans are monitored by the Senior Accountant. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates are calculated monthly using information from the treasury management team.

1.7.2. Emergency and Contingency Planning Arrangements

Disaster Recovery Plan

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server daily to enable files to be accessed from remote sites.

In the event that Fire Authority HQ is unavailable, Finance staff are able to relocate to another site and carry out transactions through the Authority's main banking provider either in person, by telephone or via internet banking. This will ensure a cash balance is maintained and payments can be made promptly to allow the Service's activities to continue.

1.7.3. Insurance Cover Details

Fidelity Insurance
The Authority has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees.

Professional Indemnity Insurance
The Authority has an Officials Indemnity Insurance policy, but this should not be relevant to the treasury management function since there are no external customers.

Business Interruption
The Authority has a 'Business Interruption' cover with Protector Insurance.

1.8 Price Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation 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.

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate

The Authority's list of specified investment types does not include any investments whose principle sum may fluctuate. Consequently the Authority has no exposure to such risks.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Authority has a number of approaches to evaluating treasury management decisions: -

a. reviews with our treasury management consultants
b. annual review after the end of the year as reported to Full Fire Authority.
c. half yearly and quarterly monitoring reports to Finance and Resources Committee / Full Fire Authority
d. comparative reviews
e. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic reviews during the financial year

The Head of Finance holds a treasury management review meeting with the treasury management team every 3 months to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.
This will include:

a) Total debt (both on and off balance sheet) including average rate and maturity profile
b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every year to review the performance of the investment and debt portfolios.

2.1.2 Review reports on treasury management

An Annual Treasury Report is submitted to the Authority each year after the close of the financial year which reviews the performance of the investing and borrowing portfolios. This report contains the following: -

a. total external debt (gross external borrowing plus other long-term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement
b. borrowing strategy for the year compared to actual strategy
c. whether or not a decision was made to defer borrowing or to borrow in advance
d. comment on the level of internal borrowing and how it has changed during the year
e. assumptions made about interest rates
f. investment strategy for the year compared to actual strategy
g. explanations for variance between original borrowing and investment strategies and actual
h. debt rescheduling done in the year
i. actual borrowing and investment rates available through the year
j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives
k. the Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together will details of any remedial action take. This includes reporting any short-term borrowing costs incurred to remediate any liquidity problem.
l. the Report shall include details of any review of long-term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy.

m. compliance with Prudential and Treasury Indicators

In addition, half yearly reports will be submitted to the Authority each year to provide updates on the above.

2.1.3 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- MUFG Benchmarking Club
- CIPFA Treasury Management Statistics (if available)

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year
- Debt portfolio compared to the debt liability benchmark

2.2.2 Investment.

The performance of investment earnings will be measured against the backward-looking compounded SONIA rate (choosing the appropriate period for the portfolio). Additional benchmarks for security and liquidity are detailed in the Annual Treasury Management Strategy.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Banking services

The Authority's banking arrangements are to be considered for competitive tender in compliance with procurement regulations. The length of contract will be a minimum of 3 years unless it is anticipated there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.3.2 Money-broking services

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and quality of services.

2.3.3 Consultants'/advisers' services

This Authority's policy is not to appoint full-time professional treasury management consultants.

2.3.4 Policy on External Managers (Other than relating to Superannuation Funds)

The Authority's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury section has access to a computerised accounting system (Agresso) in which basic information on all investment and loan transactions are recorded, in addition to manual spread sheet-based records containing full details. The following records will be retained*:* -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Authority will:

a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.

b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping

d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.

e) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Authority will:

a) Consider the on-going revenue liabilities created, and the implications for the organisation's future plans and budgets to ensure that Its capital plans and investment plans are affordable, proportionate to the Authority's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
b) Less detailed evaluation will also be carried out over a longer period of 10 years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term.
c) Not borrow to invest primarily for financial return.
d) Not borrow earlier than required to meet cash flow need unless there is a clear business case for doing so.
e) Not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Authority.
f) Increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the Authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
g) Undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.
h) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
i) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
j) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.
k) Ensure that treasury management decisions are made in accordance with good professional practice.

3.1.3.3 In respect of investment decisions, the Authority will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
c) Ensure that any long-term treasury investment is supported by a business case.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g., financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision-making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g., certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for, and date received.

A separate file is maintained for confirmations that there is an exemption from having to opt up to professional status for a regulated investment, (e.g., to use a money market fund which will deal with retail clients).

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act (2003), and within this limit the Authority has a number of methods and sources of raising capital finance available to it. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal Bond Agency	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds		
Local authority bills	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Approved methods and sources of raising capital finance will be set out in the Annual Treasury Management Strategy

Other Methods of Financing

Government Capital Grants
Lottery monies
PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

4.7 Non-treasury management investments

See appendix A for investment management practices for non-treasury investments. Any future non-treasury investments would be covered by the Capital Strategy.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Fire Authority

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual treasury management strategy.
- Approval of annual capital strategy.
- Budget approval.

(ii) Finance & Resources Committee

- Approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Head of Finance

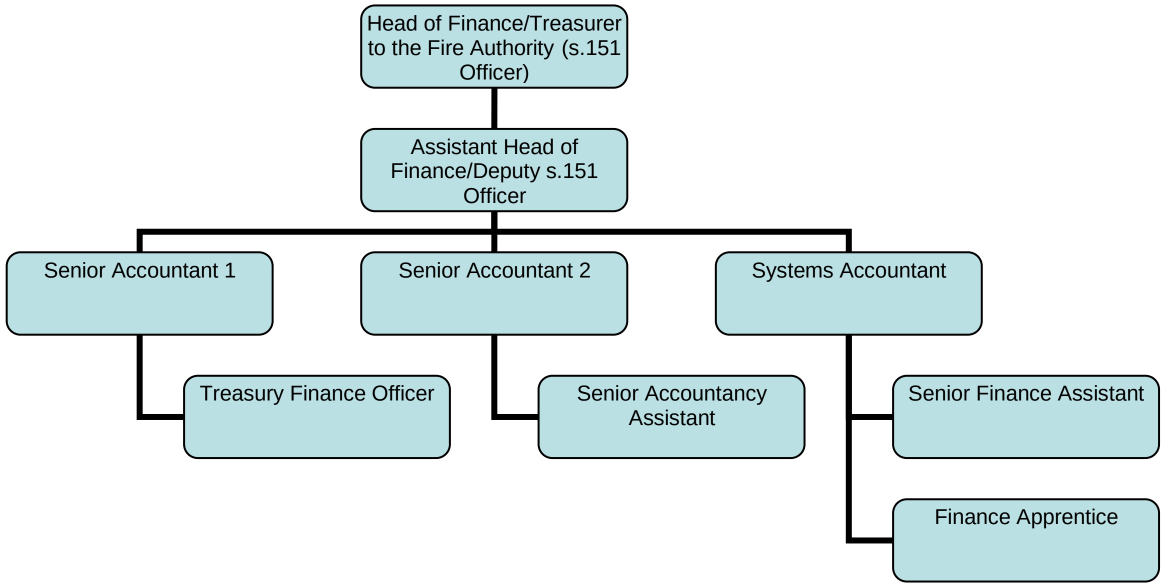
- Reviewing the treasury management policy and procedures and making recommendations to the Finance & Resources Committee.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing & Accounting Entry	Negotiation and approval of deal (negotiation to be carried out by the Treasury Finance Officer and approval can be by Head of Finance or Assistant Head of Finance). Receipt and checking of broker's confirmation note/approval form (Senior Accountant). Bank reconciliation (carried out by the Treasury Finance Officer, approved by the Assistant Head of Finance) Processing of accounting entry (Senior Finance Assistant or Finance Apprentice)
Authorisation/Payment of Deal	Entry onto system (Treasury Finance Officer). Approval and payment (Senior Accountant/Systems Accountant).

5.3 Finance Organisation Chart



5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Authority is the Head of Finance/Fire Authority Treasurer (S151 Officer). This person will carry out the following duties: -

a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
b) Submitting regular treasury management policy reports.
c) Submitting budgets and budget variations.
d) Receiving and reviewing management information reports.
e) Reviewing the performance of the treasury management function.
f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
g) Ensuring the adequacy of internal audit and liaising with external audit.
h) Recommending the appointment of external service providers.

i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate their power to borrow and invest to members of their staff. The Treasury Finance Officer, Senior Accountants, Systems Accountant or Assistant Head of Finance must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by the Head of Finance or Assistant Head of Finance prior to execution. Segregation of duties must be maintained at all times.
k) The responsible officer will ensure that Treasury Management Policy is

adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations

m) It is also the responsibility of the responsible officer to ensure that the Authority complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

5.4.1. Treasury Finance Officer

The responsibilities of this post will be:

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) monitoring performance on a day-to-day basis
e) identifying and recommending opportunities for improved practices

5.4.2. Senior Accountant 1

The responsibilities of this post will be:

a) Supervision of the Treasury Finance Officer
b) Monitoring of performance
c) Submitting management information reports to the responsible officer
d) Preparation of treasury reports for the Fire Authority or Finance & Resources Committee on behalf of the responsible officer
e) Identifying and recommending opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Fire Officer

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports regularly to the full Fire Authority on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Authorisation of borrowing and lending transactions

Authorisation is required for new borrowing and lending transactions carried out by the treasury management team.

a. Borrowing: authorised by the Head of Finance/Assistant Head of Finance

b. Lending: Head of Finance/Assistant Head of Finance

5.6 Absence Cover Arrangements

In the event of the absence of:	**Cover arrangements:**
Treasury Finance Officer	The Senior Accountants or Systems Accountant to cover..
Senior Accountant 1	Senior Accountant 2, Systems Accountant or Assistant Head of Finance to cover.

Segregation of duties is to be maintained at all times (transactions to be approved and executed by two different officers).

5.7 Dealing Limits

There are no dealing limits for individual posts.

5.8 List of Approved Brokers

See TMP 11.1.2.

5.9 Policy on Broker's Services

It is this Authority's policy to rotate business between brokers.

5.10 Policy on Recording of Conversations

It is not this Authority's policy to record brokers' conversations

5.11 Direct Dealing Practices

The Authority will consider dealing direct with counterparties if it is appropriate and the Authority believes that better terms will be available. Otherwise, deals will be arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. Review of the organisation's approved clauses, treasury management policy statement and practices.
   b. Strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.
   c. A Capital Strategy covering the following:
      i. Give a long-term view of the capital programme and treasury management implications thereof beyond the four-year time horizon for detailed planning
      ii. An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
      iii. The Authority's risk appetite and specific policies and arrangements for non-treasury investments.
      iv. Schedule of non-treasury investments

b) Mid-year review of the TMSS and treasury management activities, and quarterly reviews of compliance with treasury performance indicators.

c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the full Fire Authority for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Authority may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers
   k) any extraordinary treasury issue

l) the MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement, included within the TMSS

At the same time as the Authority receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Authority's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments the Authority will use
d) Whether they will be used by the in-house team, external managers or both (if applicable)
e) The Authority's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
f) Which credit rating agencies the Authority will use
g) How the Authority will deal with changes in ratings, rating watches and rating outlooks
h) Limits for individual counterparties and group limits
i) Country limits
j) Maximum value and maximum periods for which funds may be prudently invested
k) Levels of cash balances and investments over the same time period (as a minimum) as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
l) Interest rate outlook
m) Budget for investment earnings
n) A review of the holding of longer-term investments
o) Use of a cash fund manager (if applicable)
p) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement, included within the TMSS

This statement will set out how the Authority will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators, included within the Prudential Code Report and the TMSS

1. The Authority approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Fire Authority.

6.6 Mid-year review

The Authority will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report
d) regular monitoring
e) monitoring of treasury management indicators for local authorities.

6.7 Quarterly review

The Authority will review its compliance with treasury performance indicators on a quarterly basis, and report this to the Finance and Resources Committee.

6.8 Annual Review Report on Treasury Management Strategy

An annual report will be presented to the full Fire Authority at the earliest practicable meeting after the end of the financial year.. This report will include the following: -

a) transactions executed and their revenue (current) effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations
f) monitoring of treasury management indicators

6.9 Publication of Treasury Management Reports

All reports to the Fire Authority or sub-committees of the Fire Authority are made available for public inspection.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.
The Authority has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Authority's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Head of Finance will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income.

The Principal Accountant will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- **Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type**
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the Agresso financial system
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Senior Leadership Team, whilst a quarterly budget monitoring report goes to the Finance and Resources Committee. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position. Details of treasury management activities are included within this report, if applicable.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Authority can access daily bank statements via the BIB online system. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A system – based bank reconciliation is undertaken on a monthly basis by the Treasury FinanceOfficer.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

Details of invoices over £10k are passed to the treasury management team to inform cash flow forecasts. Advanced notice of expenditure over £10k is also provided where possible when orders are placed. Details are passed to the treasury team to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Authority will without unreasonable delay be passed to the Senior Finance Assistant to deposit in the Authority's banking accounts. The Senior Finance Assistant will notify the Treasury Management Officer of any significant sums banked so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Authority has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Authority will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place

c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is the Head of Finance.
f) in order to ensure compliance is appropriately managed, this Authority will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Head of Finance and Resources and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Authority does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.org.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Authority will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on www.fca.org.uk).

All transactions will be carried out by BACS for making deposits or repaying loans.

TMP 10 Training and Qualifications

The Authority recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Authority
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Authority operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Treasury Manager (Senior Accountant) to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff that from time-to-time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

Staff will maintain records on iTrent of any training received.

10.3 Approved Qualifications for Treasury Staff

It is desirable for treasury management staff to hold the Association of Accounting Technicians professional qualification as a minimum standard.

10.4 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.5 Standards of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Authority will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in-house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is Barclays Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
c) The branch address is:
Barclays
2 High St
Nottingham
NG1 2EN

d) Telephone numbers:

	Branch	0345 734 5345
	Client servicing	0330 156 0008
	.Net helpline	0330 156 0087
	Treasury Team	0330 156 0037
	Online fraud helpdesk	0330 156 0155
	UK fraud operations	0345 050 4585

d) Services are provided on a rolling contract.
e) Cost of service is variable depending on schedule of tariffs and volumes
f) Payments due quarterly.

11.1.2 Money-Broking Services

The Authority will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers. The approved brokers are:

BGC Brokers L.P.: 5 Churchill Place, London, E14 5HU

Regulatory status: Regulated by the FCA

Tradition (UK) Ltd: Beaufort House, 15 St Botolph Street, London, EC3A 7QX

Regulatory status: Regulated by the FCA

11.1.3 Consultants'/Advisers

Treasury Consultancy Services

The Authority will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be continually reviewed by the treasury management team.

a) Name of supplier of service is MUFG Corporate Markets Treasury Limited. Their address is 19th Floor, 51 Lime Street, London, EC3M 7DQ. Telephone: 0333 300 1950.
b) Regulatory status: investment adviser authorised by the FCA.
c) Contract commenced 1January 2024 and runs for 4 years.

Leasing Consultancy Services

Services are provided as an addendum to the Treasury Consultancy Services contract.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.3 Credit Rating Agency

The Authority receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2.

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Authority is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

Treasury Management Policy Statement
Treasury Management Strategy Statement
Annual Investment Strategy
Minimum Revenue provision policy statement
Annual Treasury Review Report
Treasury Management monitoring reports (e.g. half yearly, quarterly)

Annual accounts and financial instruments disclosure notes
Annual budget4 Year Capital Plan
Capital Strategy

Minutes of full Fire Authority and sub-committee meetings

Appendix A

Investment Management Practices for Non-Treasury Investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The cross sectoral guidance notes state that authorities should be clear as to what powers have been used for each non treasury investment. If any non-treasury investments are undertaken the Authority must ensure that the following records are kept:

- Name
- Date investment made
- Cost
- Expected income
- Approved by (committee or officer if using delegated authority)
- Legal power used
- Purpose, e.g. income generation
- Service (where relevant)

The following should be documented for each investment:

- The extent to which the capital invested is at risk
- The impact of any potential losses on the financial sustainability of the organisation
- Dates for periodic review to take account of changes in market and other conditions
- Names of officers or titles of posts outside of the treasury management team who are responsible for each non treasury investment and periodic monitoring

More guidance can be found in the 2021 versions of the Treasury Management Code of Practice and the Prudential Code for Capital Finance