

Status of Report: Public

Meeting: Combined Fire Authority

Date: 2 October 2024

Subject: Treasury Management Strategy

Report by: Head of Corporate Financial Services

Author: Collette Sutton

For: Decision

Purpose

1. The report presents the Combined Fire Authority (CFA) with a new Treasury Management Strategy for the CFA up to 31 March 2025. The Strategy will be reviewed and enhanced as part of the budget setting process for 2025/26 which is presented to CFA in February each year.
2. A Treasury Management Strategy is a statutory requirement under the Local Government Finance Act and is only now required for the CFA as treasury management will be coming in-house from Leicester City Council who have been managing treasury arrangements on behalf of the CFA since 2015. This arrangement will formally on 30 September 2024 and the transition period has now commenced.

Recommendation

3. The CFA is asked to:
 - a. Approve the CFA Treasury Management Strategy with immediate effect through to 31 March 2025 as shown in Appendix 1;
 - b. Note that day-to-day treasury management arrangements will no longer be managed by Leicester City Council from 30 September 2024;
 - c. Note that the Strategy will be reviewed and enhanced as part of the budget setting process for 2025/26 which will be presented to CFA in February 2025; and
 - d. Approve the Treasury Management Scheme of Delegation and authorise the Monitoring Officer to make any amendments that may be required to the Constitution of the CFA to implement the scheme.

Executive Summary

4. The Local Government Act 2003 (the Act) and supporting regulations requires the CFA to 'have regard to' the Chartered Institute of Public Finance (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 Council's capital investment plans are affordable, prudent and sustainable.

5. Since October 2015, day-to-day treasury management activities for the CFA have been conducted by Leicester City Council. A transition period has commenced for a full hand-over of treasury management back to the CFA on 30 September 2024.
6. A Treasury Management Plan/Strategy is now required for the CFA.
7. The CFA has engaged Arlingclose as its external treasury management advisors.
8. The CFA recognises that responsibility for treasury management decisions always remains with the CFA and will ensure that undue reliance is not placed upon its external service providers.

CIPFA Definition of Treasury Management

9. The Chartered Institute of Public Finance and Accountancy (CIPFA), the global body dedicated to public financial management, defines treasury management as:

‘The management of the organisation’s borrowing, investments and cash flows, including 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.’

Background

10. The CFA is required to have regard to the requirements of the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (TM Code) and the CIPFA Prudential Code for Capital Finance (“the Prudential Code”). This requires the CFA to have appropriate treasury management arrangements in place to manage its borrowing and cash balances and deliver best practice.
11. These arrangements are usually approved annually in the organisation’s Treasury Management Strategy Statement (TMSS) as part of the budget setting process. This has not been the case for the CFA as Leicester City Council has been managing treasury on CFA behalf but will now be included in the 2025/26 budget. The TM Code also recommends that the appropriate governance committee is informed of treasury management activities at least twice a year.
12. The regulatory environment places responsibility on the CFA for the review and scrutiny of treasury management policy and activities, with member training if required.
13. To support the transition process from Leicester City Council, the CFA has engaged Arlingclose to provide independent treasury advice and support; they currently support over one hundred local authorities in this capacity.

Statutory and other requirements

Statutory requirements

14. The Local Government Act 2003 (the Act) and supporting regulations require the CFA to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (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 CFA's capital investment plans are affordable, prudent and sustainable.
15. The Act therefore requires the CFA to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy. This document sets out the CFA's treasury management strategy and is consistent with the current CIPFA Treasury Management Code of Practice. The primary requirements of the Code are as follows:
 - a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the CFA's treasury management activities (Appendix i);
 - b) Creation and maintenance of Treasury Management Practices which set out the way the CFA will seek to achieve those policies and objectives;
 - c) Receipt by the CFA of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;
 - d) Delegation by the CFA of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
 - e) Delegation by the CFA of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this CFA the delegated body is the Corporate Governance Committee.

Balanced Budget Requirement

16. It is a statutory requirement under Local Government Finance Act 1992 for the CFA to produce a balanced budget. Section 32 requires the CFA in common with all local authorities to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
 - increases in interest charges caused by increased borrowing to finance additional capital expenditure;
 - increases to the minimum revenue provision; and

- increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Treasury Management Strategy Overview

17. The Treasury Management Strategy in Appendix A includes the CFA current portfolio position, debt position and treasury limits.
18. There is a Borrowing Strategy and Annual Investment Strategy and Arlingclose, the CFA's external advisors, has provided an economic background.
19. In accordance with the CIPFA Treasury Management Code information, advice and training will be made available for officers and members including:
 - Effective scrutiny of treasury management
 - Risk management
 - Good governance
 - Counter fraud
20. The proposed CFA treasury management scheme of delegation is shown in Appendix B to this report.
21. The Treasury Management role of the Section 112 (S151) Officer is shown in Appendix C to this report.

Report Implications/Impact

22. Legal (including crime and disorder)
 - The statutory requirements are as set out in this report, supplemented by a number of CIPFA Codes of Practice to which the CFA is required to have regard. This includes the Treasury Management and Prudential Code of Practice which requires the CFA to ensure:
 - it defines its risk appetite and its governance processes for managing risk.
 - it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects.
 - it adopts a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
 - it does not borrow to finance capital expenditure to invest primarily for return.

- increases in the Capital Financing Requirement (CFR) and borrowing are undertaken solely for purposes directly and primarily related to the functions of the CFA. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.
- an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- its capital plans and investment plans are affordable and proportionate.
- all borrowing/other long-term liabilities are within prudent and sustainable levels.
- risks associated with commercial investments are proportionate to overall financial capacity to sustain losses.
- treasury management decisions are in accordance with good professional practice.
- reporting to members is undertaken twice a year, including updates of prudential indicators.

The change in arrangements set out in this report will require consequential changes to the Constitution of the CFA.

23. Financial (including value for money, benefits and efficiencies)

To support the transition period, external treasury management advisory services have been procured from Arlingclose at a cost of £9,000 plus VAT for the 12-month period commencing 7th August 2024.

This advisory service covers:

- Establishing prudent treasury policies
- Determining clear, pragmatic treasury and risk management strategies
- Assistance with relevant treasury documentation and practices
- Treasury monitoring and review.

24. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

None arising directly from the report.

25. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

There are no direct impacts arising from the report.

26. Environmental

Hard copies of the Treasury Management Strategy are only produced on request. An electronic copy will be available on the CFA's website.

27. Impact upon "Our Plan" Objectives

One of the CFA's aims in the Community Risk Management Plan 2024-2028 is achieving excellence in managing our service. This is underpinned by the objective of efficiency and provision of a Value for Money service. The production of a corporate Treasury Management Plan/Strategy supports both the aim and objective.

Background Papers

None

Appendices

Appendix A - Draft Treasury Management Strategy
Appendix B - Proposed treasury management Scheme of Delegation
Appendix C - The Treasury Management role of the Section 112 (S151) Officer

Officers to Contact

Collette Sutton, Head of Corporate Financial Services

Collette.sutton@leics-fire.gov.uk

07800 709924