**Lancashire Fire and Rescue Service’s Medium Term Financial Strategy 2024/25**

# Introduction

The purpose of the Medium Term Financial Strategy (MTFS) is to provide the Authority, staff, the public and other stakeholders with information on the financial outlook and the estimated available funding over the next five years. The MTFS takes into account future high level, potential revenue and capital expenditure over the period based upon current known information and estimates.

# The Budget Strategy

The purpose of the budget strategy is to provide a basis for determining:

* The level of funding available in the future to deliver national and local priorities.
* The future demands upon the revenue budget.
* The impact of external factors.
* The financial implications of collaborations, partnerships etc.
* The amount of capital investment which is required to achieve corporate objectives.
* The revenue consequences of such capital investment.
* The future reserve levels.
* The impact of additional demands on the level of council tax that is required.
* The potential impact of the main financial risks facing the organisation.

The above helps to establish the anticipated level of funding and demands on finances over the MTFS period enabling strategic financial planning processes to address the challenges and outcomes. The following sets out the key principles for that planning process:

* Ensure that plans contribute to improved outcomes in support of set priorities within the Community Risk Management Plan (CRMP).
* Set a comprehensive, timely, balanced, and realistic budget.
* Take into account pay and price inflation and achievability of savings.
* Ensure compliance with the approved capital strategy.
* Ensure compliance with the approved reserves strategy.
* Ensure compliance with the approved treasury management strategy.
* Raise awareness of and communicate key financial messages both internally and externally.
* Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term.
* Demonstrate that all spending plans achieve value for money.
* Agree spending only when the necessary funding is identified and approved.
* Seek external funding wherever it can be used in a sustainable manner that does not lead to unforeseen costs.
* Publicise significant budget proposals and where appropriate consult with key stakeholders.

# Financial Scenario

It is imperative that the MTFS takes account of the local, regional, national, and global economies. This provides a basis for the estimates and assumptions used.

The Authority receives its main funding from three sources – Government grants, business rates and local council tax (known as a precept). Council Tax and Business Rates represents 85% of our funding.

On 5 February 2024, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), released the final local government finance settlement 2024/25. It is for one year only and based on the Spending Review 2021 (SR21) funding levels, updated for the 2023 Autumn Statement announcements. The main headlines for the 2024/25 budget are:

The council tax referendum limit will be 2.99%. The fire sector had lobbied for a £5 increase (equivalent to 6.1% for the Authority) that is consistent with 2023/24 and reflects current inflationary and demand pressures.

The Fire Services Pension Grant of £3.3m has been included in the Revenue Support Grant (RSG) from 2024/25, it was previously included in the service net budget. This has no overall impact, but it increases our net budget and sources of funding income by £3.3m.

The September CPI figure of 6.7% has been applied to increase business rates grant funding (£12.1m) and the Revenue Support Grant (£13.5m).

The Services Grant reduced from £0.6m in 2023/24 to £0.1m in 2024/25.

One year Funding Guarantee Grant received of £0.9m. We did not receive this in 2023/24 but it ensures each authority’s funding overall increases by at least 4%.

A precept is levied on the council tax to partly fund the authority and it is the responsibility of the Authority to set the level of precept as part of the annual budget setting process. To calculate the level of council tax funding, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, council tax benefits etc. These vary each year and the MTFS includes assumptions for these changes based on discussions with and forecasts supplied by the local collection authorities.

It is now standard for the Government to set a limit on the amount by which a local authority can increase its council tax each year, with any increase above this limit requiring a referendum. The Provisional Local Government Finance Settlement confirmed that for 2024/25 this is 2.99% at Band D for one year only.

Each year the council tax income is calculated based on assumed levels of collection rates by the local authorities. This means that at the end of each year, an adjustment has to be made to reflect the actual collection rate. If more has been collected, the fund will be in surplus; if less has been collected, the fund will be in deficit. The Authority will either receive its share of any surplus or be required to pay its share of any deficit and this is taken into account as part of the overall budget setting process.

The same process applies to the collection of local business rates in which the Authority has a 1% stake. The details of these are published by the end of the January prior to setting the budget.

# MTFS Key Financial Assumptions

Some of the key financial assumptions and estimates in the five-year MTFS are set out below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Key Assumptions**  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  |
| Uniform Pay Award (Apr - Jun)  | 5%  | 3%  | 2%  | 2%  | 2%  |
| Uniform Pay Award (Jul - Mar)  | 3%  | 2%  | 2%  | 2%  | 2%  |
| Non-uniform Pay Award  | 3%  | 2%  | 2%  | 2%  | 2%  |
| General inflation  | 3%  | 2%  | 2%  | 2%  | 2%  |
| Establishment start of year  | 654 | 636 | 634 | 635 | 640 |
| New recruits during year | 0 | 18 | 38 | 38 | 20 |
| No of Leavers  | (18) | (20) | (37) | (33) | (21) |
| Establishment end of year  | 636  | 634  | 635  | 640  | 639  |
| Council Taxbase % increase | 1.38% | 0.79% | 0.79% | 0.79% | 0.79% |
| Council tax precept % increase | 2.99% | 2.99% | 2.99% | 2.99% | 2.99% |

Inflation – These include:

An allowance of 3% for pay awards in 2024/25 has been included with 2% thereafter.

Specific increases in price inflation for known areas has been assumed.

Other non-pay budgets have increased by the latest Office of Budget Responsibility (OBR) CPI figures; 3% in 2024/25 and 2% thereafter. If pay awards are higher than assumed, they will need to be met from reserves or in year savings in 2024/25 with additional savings made in future years. Each 1% increase results in an additional £0.5m and £0.1m for Grey book and Green book staff respectively.

Commitments – These reflect the impact of previous decisions that have a financial consequence or are due to policy, legal or regulatory changes. In 2024/25 the commitments include:

The Authority reaffirmed their commitment to the North West Fire Control in December 2023 including an increased contribution to their costs due to changes in activity levels and result in an increase of £0.2m.

The reduction in interest rates results in a loss of investment income of £0.4m in 2024/25.

Vacancy levels across the organisation are forecast to be lower in 2024/25 along with more staff expected to reach Competency, this results in an increase establishment cost of £0.4m in 2024/25.

The Emergency Cover Review (ECR) approved by the Authority in 2022 resulted in an overall increase of 8 Wholetime Firefighter across the Service. In 2024/25 there is a resourcing commitment of £0.2m as previously agreed, to fund these posts.

Permanent Resourcing – These include:

An allowance is made in future years for replacement Personal Protective Equipment based on recommended lifespan.

A reduction is forecast at the next valuation of the Local Government Pension Scheme surplus resulting in a pressure in 2026/27 of £0.5m.

Additional borrowing is required to meet the planned capital programme from 2025/26. This results in an overall increase in borrowing costs (repayment and interest) from 20225/26 of £0.3m, rising to £2.1m by 2028/29. This is considered in more detail in the Capital Strategy Appendix.

One off items in 2024/25 include:

* Opportunities for four non-operational apprentices for two years have been identified that results in a one off item of £0.1m.
* Additional short-term funding of £0.4m is provided to meet resourcing pressures in support services.

Identified savings – These include:

* A reduction in the Contribution to Capital of £1.5m is proposed, this results in a revenue contribution in 2024/25 of £2.5m; this is consistent with the average contribution made over the previous 10 years. See the Capital Strategy for further information on the Capital Programme.
* From 2026/27 efficiencies of £2.5m are required to be delivered and are included in the MTFS.

Funding – Detailed assumptions are included in the MTFS, in broad terms the funding growth is between 2% and 3%.

The summary MTFS is set out below and in more detail in Appendix 1 of this report.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Revenue MTFS**  | **24/25 £m**  | **25/26 £m**  | **26/27 £m**  | **27/28 £m**  | **28/29 £m**  |
| Base Budget  | 71.6  | 75.2  | 76.5  | 78.7  | 81.0  |
| Inflation  | 2.5  | 1.6  | 1.6  | 1.6  | 1.6  |
| Commitments  | 1.3  | (0.0)  | 0.5  | 0.1  | (0.3)  |
| Growth – permanent  | 0.7  | 0.6  | 1.4  | 0.4  | 0.5  |
| One-off items  | 0.5 | (0.3) | 0.2 | (0.3) | 0.1 |
| Identified Savings  | (1.5) | (0.5) | (1.5) | 0.5 | 0.5 |
| **Net Budget**  | **75.2**  | **76.5**  | **78.7**  | **81.0**  | **83.5**  |
|  |  |  |  |  |  |
| Council Tax  | (39.4)  | (40.8)  | (42.4)  | (44.0)  | (45.7)  |
| Business Rates | (21.3) | (21.7) | (22.1) | (22.6) | (23.0) |
| Revenue Support Grant | (13.5) | (13.9) | (14.1) | (14.4) | (14.7) |
| Other Grants | (1.0) | (0.1) | (0.1) | (0.1) | (0.1) |
| **Funding**  | **(75.2)**  | **(76.5)**  | **(78.7)**  | **(81.0)**  | **(83.5)**  |

# MTFS Risks and Scenarios

The following significant financial risks have been identified and assessed by the Director of Corporate Services and he feels these are adequately covered within the budget estimates presented or within the level of reserves currently held:

* Reductions in levels of funding over and above those forecasted.
* Changes to the Business Rates Retention Scheme.
* Adverse changes because of the implementation of the Fair Funding Review.
* Reduction in Council Tax funding.
* Higher than anticipated inflation.
* Larger increases in pension costs.
* Significant changes to retirement profiles.
* Increase in demand led pressures.
* Higher insurance claims.

The key budget risks are quantified below in the following budget scenarios:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Budget Scenarios**  | **24/25 £m**  | **25/26 £m**  | **26/27 £m**  | **27/28 £m**  | **28/29 £m**  |
| General Reserve  | 4.8  | 4.9  | 5.1  | 4.9  | 4.9  |
| Revised GR after:  |  |  |  |  |  |
| - 1% higher pay award  | 4.4  | 3.9  | 3.5  | 2.7  | 2.0  |
| - Grant freeze 25/26 to 28/29  |  | 4.5  | 4.4  | 3.2  | 2.0  |
| 10% funding reduction from 2025  |  | 3.6  | 2.7  | 1.0  | (0.5)  |

The analysis shows that whilst the general reserve is sufficient to meet an element of volatility however, there would need to be structural changes to the underlying cost base should any of these scenarios materialise in order to maintain financial sustainability for the period of the MTFS.

# Indicative Capital Programme

The Authority has a ten-year capital programme, from 2024/25 to 2033/34. This reflects the Authority’s capital aspirations in the Fleet, Estates and ICT strategies. The first five years of the strategy are set out below. Work is ongoing to refine the later years of the programme (from years 6 to 10), in particular with detailed condition surveys across our estate.

The table below shows the Authority’s first five years of the Capital Programme and how it is anticipated that it will be funded.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Capital Programme**  | **2024/25 £m**  | **2025/26 £m**  | **2026/27 £m**  | **2027/28 £m**  | **2028/29 £m**  |
| Vehicles  | 3.2  | 1.6  | 1.6  | 1.6  | 2.1  |
| Operational Equipment  | 1.3  | 1.0  | 0.9  | 0.4  | 0.6  |
| Buildings  | 3.5  | 15.4  | 15.4  | 7.9  | 10.8  |
| ICT  | 2.2  | 2.3  | 0.6  | 0.2  | 0.5  |
|  | **10.2**  | **20.3**  | **18.5**  | **10.0**  | **13.9**  |
| **Funding**  |  |  |  |  |  |
| Revenue Contributions  | 2.5  | 2.0  | 3.0  | 3.5  | 4.0  |
| Capital Reserve  | 7.7  | 11.1  | 0.0  | 0.0  | 0.0  |
| Capital Receipts  | 0.0  | 0.0  | 0.0  | 5.0  | 0.0  |
| Grants  | 0.0  | 1.0  | 0.0  | 0.0  | 0.0  |
| Borrowing  | 0.0  | 6.2  | 15.5  | 1.5  | 9.9  |
| **Total**  | **10.2**  | **20.3**  | **18.5**  | **10.0**  | **13.9**  |

Full details of the 10-year capital programme and its associated funding are included in the Capital Strategy. In addition, given the above funding proposals

includes borrowing, the impact of this is discussed in more detail within the

Treasury Management Strategy.

**Analysis of Budget by Service Area**

|  Department | **2024/25** **£m**  | **2025/26** **£m**  | **2026/27** **£m**  | **2027/28** **£m**  | **2028/29** **£m**  |
| --- | --- | --- | --- | --- | --- |
| Service Delivery  | 40.74  | 41.28  | 42.41  | 43.33  | 44.02  |
| Prevention & Protection  | 3.39  | 3.47  | 3.54  | 3.62  | 3.70  |
| Centralised Administration  | 0.92  | 0.94  | 0.96  | 0.98  | 1.00  |
| Control  | 2.07  | 2.11  | 2.21  | 2.25  | 2.30  |
| Corp Comms  | 0.39  | 0.40  | 0.41  | 0.42  | 0.43  |
| Digital Transformation  | 0.80  | 0.81  | 0.75  | 0.76  | 0.78  |
| Exec Board  | 1.13  | 1.16  | 1.18  | 1.21  | 1.23  |
| Finance  | 0.21  | 0.22  | 0.22  | 0.23  | 0.23  |
| Fleet Services  | 3.61  | 3.49  | 3.56  | 3.64  | 3.71  |
| Health & Safety  | 0.28  | 0.29  | 0.29  | 0.30  | 0.31  |
| Human Resources  | 1.04  | 0.99  | 1.01  | 1.03  | 1.05  |
| IT  | 3.41  | 3.48  | 3.52  | 3.60  | 3.67  |
| OCC Health  | 0.31  | 0.32  | 0.33  | 0.33  | 0.34  |
| Pensions  | 1.43  | 1.45  | 1.48  | 1.50  | 1.53  |
| Procurement  | 0.79  | 0.91  | 0.90  | 0.91  | 0.93  |
| Service Development  | 1.98  | 2.02  | 2.06  | 2.10  | 2.14  |
| Special Projects  | 0.04  | 0.04  | 0.04  | 0.04  | 0.04  |
| TOR  | 4.47  | 4.55  | 4.82  | 4.96  | 4.89  |
| Property  | 4.12  | 4.35  | 4.45  | 4.54  | 4.64  |
| Overheads  | 4.03  | 4.23  | 4.57  | 5.30  | 6.54  |
| **Grand Total**  | **75.16**  | **76.50**  | **78.71**  | **81.04**  | **83.45**  |

**Capital Strategy**

**Introduction**

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities establishes a framework that supports local strategic planning, asset management and appropriate options appraisal.

The objectives of the Code are to ensure that the capital plans of an organisation are affordable, prudent, and sustainable and the treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

**Definition**

To utilise the full extent of the Code and its framework, it is essential that there is a clear understanding of what capital expenditure is. Unless expenditure qualifies as capital it will normally fall outside the scope of the Code and its framework and be charged to revenue in the period in which the goods or services were received. If expenditure does qualify as capital, there are opportunities to finance such spend from any capital receipts held or to spread the cost over future years in line with the life of the asset(s) purchased/created.

In the main, expenditure must meet one or more of the following conditions for it to be classified as capital:

* Spend results in the acquisition, construction, or enhancement of an asset (tangible or intangible) in accordance with ‘proper practices’.
* Spend meets one of the definitions specified in regulations made under the 2003 Local Government Act.
* The Secretary of State makes a direction that the expenditure can be treated as capital.

**Context**

The capital expenditure plans are largely limited to replacing and upgrading essential operational assets (e.g. Estate Facilities, Vehicles, Equipment, Communications Infrastructure).

This Capital Strategy forms part of our financial strategies, these are one of six core strategies that set out how we will provide services in line with the following priorities in our five-year Community Risk Management Plan (CRMP):

* Valuing our people.
* Preventing fires.
* Protecting people and property.
* Responding to fires and other emergencies.
* Delivering value for money.

The Authority is committed to having rolling medium term revenue and capital plans (summarised in a Medium Term Financial Strategy – MTFS) that extends for up to five years. The plans are drawn up, reassessed, and extended annually and if required re-prioritised to enable the Authority to achieve its aims and objectives established in the CRMP.

In the past, general capital grant funding was received each year from the Government, which helped to fund replacement of vehicles, IT, operational equipment, and capital maintenance of buildings. This general capital grant funding ended in 2014/15. As a result, all capital investment since then has been funded from the Authority’s own resources unless specific funding was available. No further government capital grant funding is anticipated going forward. The level of reserves currently held will not be sufficient to fund the proposed capital works over the medium term and borrowing will therefore be required going forward to meet the capital programme. Borrowing incurs ongoing costs of interest payments and the funding that is set aside to repay the loan in due course.

The Authority has not utilised borrowing to fund its capital programme and thus has one of the lowest levels of borrowing of all fire services in the country. However, the necessary investment in the estate cannot be delivered without borrowing.

Key focuses of the Capital Programme plans, all aligned to achieving the Authority’s priorities are:

* To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure, maintaining core sites and improving core training facilities.
* The replacement of other core assets where necessary, e.g., vehicles, operational equipment, and communication infrastructure.
* Development of improved capability.
* To ensure provision is made for ICT to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative and efficient digital services.
* Invest to Save Schemes.

The plans must consider the constrained financial position of the Authority and the need to maximise both the available financial resources and the capacity that the Service has to manage change projects.

**Governance**

The annual budget setting process is an ongoing process managed by the Authority’s Executive Board. Capital projects are considered by the Executive Board, they include a business case that identifies the organisational requirement, rationale, deliverables, benefits, links to the Authority’s priorities and costs in terms of both capital investment and ongoing revenue consequences.

The delivery of capital projects is over overseen by the Capital Projects Programme Board (CPPB) and reported to the Service Management Team – Corporate Programme Board (CPB). Capital budget monitoring reports are presented to the Resources Committee to monitor progress.

A Member Capital Projects Working Group has also been established to oversee the development and delivery of our major capital projects and progress is also reported to the Resources Committee that considers any slippage, variances and accelerated spend.

An updated MTFS and Capital Strategy, including a recommended Capital Programme for the next year, is then presented to the Authority, providing views on affordability, potential funding issues and options.

To evaluate the success and outcomes of capital projects, a post project review is carried out. The depth of this review is proportionate to the scale of the project and the benefits set out in the initial Project Initiation Documentation. This review focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital, and the impact of other funding and partnership working. This information can then be used to learn lessons and make any improvements during subsequent projects. The post project report is reviewed by the CPPB and escalated to the CPB if required.

**Funding Streams**

Capital expenditure can be funded from a number of sources as set out below:

Government Grants – these are either general grants which can be used to fund any capital spend approved by the Authority or specific grants which can only be used to fund specific projects in line with any conditions placed with the grant. The Authority has not received an annual government capital grant allocation since 2014/15.

Capital Receipts – when an asset held by the Authority is sold, the proceeds are held in reserve to be used either to fund future capital expenditure or to repay debt. They cannot be used to fund revenue expenditure.

Reserves – funds can be set aside and held in earmarked reserves if known expenditure is to be incurred at a future date. These reserves can then be used to fund such expenditure be it capital or revenue. In terms of capital expenditure, it may be known that a specific asset may need replacing in 10 years and therefore funds are set-aside each year to build up the reserve to fund the replacement. Details of the reserves held are found within the Authority’s Reserves Strategy.

External Contributions – these are funds or grants provided by external organisations such as collaboration partners or local authorities for specifically agreed capital expenditure.

Borrowing – the Authority is permitted in law to take out loans or financing to fund capital expenditure. The Prudential Code sets out the requirements under which such borrowing must be undertaken including affordability, prudence, and cost effectiveness. Any borrowing will incur costs for interest payable and the need to set-aside sufficient funds to repay the loan. These costs impact on the revenue budget.

**Capital Programme**

The Authority has a ten-year capital programme, from 2024/25 to 2033/34.

This reflects the Authority’s capital aspirations in the Fleet, Estates, and ICT strategies. The first five years of the strategy are more detailed, but work is ongoing to develop a more detailed ten-year strategy, in particular with detailed condition surveys across our estate.

The table below shows the Authority’s first five years of the Capital Programme and how it is anticipated that it will be funded. The detailed ten-year capital programme is set out in Appendix 1 of this paper.

| Area of spend  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  |
| --- | --- | --- | --- | --- | --- |
| Vehicles  | 3.2  | 1.6  | 1.6  | 1.6  | 2.1  |
| Operational Equipment  | 1.3  | 1.0  | 0.9  | 0.4  | 0.6  |
| Buildings  | 3.5  | 15.4  | 15.4  | 7.9  | 10.8  |
| ICT  | 2.2  | 2.3  | 0.6  | 0.2  | 0.5  |
|  | **10.2**  | **20.3**  | **18.5**  | **10.0**  | **13.9**  |
| **Funding**  |  |  |  |  |  |
| Revenue Contributions  | 2.5  | 2.0  | 3.0  | 3.5  | 4.0  |
| Capital Reserve  | 7.7  | 11.1  | 0.0  | 0.0  | 0.0  |
| Capital Receipts  | 0.0  | 0.0  | 0.0  | 5.0  | 0.0  |
| Grants  | 0.0  | 1.0  | 0.0  | 0.0  | 0.0  |
| Borrowing  | 0.0  | 6.2  | 15.5  | 1.5  | 9.9  |
| **Total**  | **10.2**  | **20.3**  | **18.5**  | **10.0**  | **13.9**  |

The 2023/24 five-year capital programme approved by the Authority in February 2023 included three major projects; Headquarters relocation (£15m), Training Centre Props (£5m) and Preston replacement station (£10m). Together with the Member Capital Working Group, officers have been reviewing the scope of the projects, costings to reflect changes in prices and timings for these three major capital projects. The key changes considered by the working group is reflected in the updated 2024/25 capital programme proposed, these include:

Headquarters relocation – The business case for the relocation of Headquarters recommended the value for money option of building a new Headquarters at the Training Centre. Alongside this the working group also considered the future of Lancaster House at the Training Centre given the age and maintenance liabilities. The updated project is for a combined Headquarters and Training Facility at the Training Centre, replacing the current Headquarters at Fullwood and office / teaching space in Lancaster House. This will provide modern office and training facilities that meet current environmental and design requirements. It will also ensure that our people have the best facilities to support health and wellbeing by providing a safe and positive work environment. The costings were updated during the year to reflect the latest inflation forecast and an estimate of £18m is included in the programme between 2024/25 and 2026/27.

The relocation of Headquarters necessitates the need to invest in a new station to replace Fulwood either on the existing site or at an alternative location. This forms part of the Preston review considered below but is included in the programme at an estimate of £7m in 2027/28 that is part funded by a capital receipt from the sale of land at the Fulwood site.

Training Centre Props – A modern and progressive service requires high quality facilities to help in the initial training and ongoing maintenance of competency requirements across a broad spectrum of operational activities. The existing facilities were reviewed alongside more modern facilities in the region. The review identified that greater investment is required to meet our requirements and an estimate of £10m is included in the programme between 2024/25 and 2026/27.

Preston replacement station – A review of emergency cover in Preston has commenced. The aim of the review is to create a new, modern station either in the same place or another location that serves both our staff and the local community well. To date, 25 sites have been considered and further work is ongoing, however many of these sites have been discounted due to unavailability. The budget remains at £10m and is programmed for the final year of the five-year programme however, work is required in the short term on the current station, particularly on the welfare facilities and training area, and this has been included in the capital programme. The budget for the replacement remains at £10m and is programmed for 2028/29.

Whilst we have sequenced the projects as detailed, the Authority should remain flexible, and the years that the projects are delivered may change due to opportunities of land and other matters, details of which will be discussed with the Working Group and approvals sought as required.

To fund the Capital Programme, table four shows that in addition to utilising the Capital Reserve and revenue contributions, £31m of additional borrowing is required. The long-term revenue costs of this borrowing, based on the latest borrowing forecasts, is approximately £2.5m per annum which is included in the MTFS.

**Affordability**

Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impacts on cash balances and borrowing

requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, the Authority sets and reviews a number of prudential indicators providing context for proposed capital expenditure plans: how they are to be funded, the impact on the organisation’s finances; and their affordability in terms of the impact on revenue budgets.

Full details and commentary on the prudential indicators are found within the Authority’s Treasury Management Strategy 2024/25. Along with controls and limits relating to levels of capital expenditure and resulting borrowing requirements, these prudential indicators also include a specific affordability indicator, shown below, which provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances.

**Risk Management**

Risk is the threat that an event or action will adversely affect the Authority’s ability to achieve its desired outcomes and ability to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences, and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the elements of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks or maximise opportunities.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced, and monitored. It is important to identify the appetite for risk for each scheme and for the capital programme, especially when investing in complex business change programmes. Where greater risks are identified as necessary to achieve desired outcomes, the organisation will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

The Treasurer will report on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

Credit Risk - The risk that an organisation with which we have contracted to deliver capital projects becomes insolvent and cannot complete the agreed contract. We will ensure that robust due diligence procedures

cover the appointment of partners and contractors relating to capital programme delivery. Where possible contingency plans will be identified at the outset.

Liquidity Risk - This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. There is also a risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes and mitigating actions taken promptly where appropriate.

Interest and Exchange Rate Risk - This is the risk that interest rates or exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible, our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.

Inflation Risk - This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.

Legal and Regulatory Risk - This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before making capital investments, the Authority will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

Fraud, Error, and Corruption - This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Cheshire Fire Authority has a strong ethical culture which is evidenced through its values, principles, and appropriate behaviour. This is supported by a Code of Ethics and detailed policies such as Anti-Fraud and Corruption and processes such as that in relation to declaration of interests.

**Future Actions**

This Capital Strategy looks ahead over the next 10 years to 2034 and will be refined considering emerging and changing issues, circumstances, and priorities.

**Capital Programme – 2024/25 – 2033/34**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **£'m**  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  | **29/30**  | **30/31**  | **31/32**  | **32/33**  | **33/34**  | **TOTAL**  |
| **Vehicles**  |  |  |  |  |  |  |  |  |  |  |  |
| Aerial Ladder Platform  | 0.251  |  |  |  |  |  |  |  |  |  | 0.251  |
| Fire appliance  | 0.750  | 0.750  | 1.250  | 1.000  | 1.000  | 1.000  | 1.250  | 0.880  | 0.440  | 1.000  | 9.320  |
| Climate change Vehicle  | 0.150  | 0.500  |  |  |  |  |  |  |  |  | 0.650  |
| Water tower  | 1.100  |  |  |  | 0.550  |  |  |  |  |  | 1.650  |
| Foam Pod  |  |  |  | 0.029  | 0.029  | 0.059  | 0.029  |  |  |  | 0.146  |
| Prime Mover  | 0.297  |  |  |  |  |  |  |  |  |  | 0.297  |
| Car - Small  | 0.060  | 0.040  | 0.040  |  | 0.120  |  | 0.060  |  |  |  | 0.320  |
| Car - Medium  | 0.115  | 0.069  | 0.023  | 0.207  |  |  | 0.138  |  |  |  | 0.552  |
| Car - Large  |  |  | 0.054  |  | 0.027  |  |  |  |  |  | 0.081  |
| Car - Flexible Duty Officer  | 0.224  | 0.028  | 0.083  | 0.248  | 0.110  | 0.028  | 0.083  |  |  |  | 0.802  |
| People Mover  |  |  |  |  | 0.091  |  |  |  |  |  | 0.091  |
| Double Cab Van  | 0.054  | 0.081  |  | 0.054  | 0.054  |  | 0.054  |  |  |  | 0.297  |
| Lorry  | 0.045  |  |  |  |  |  |  |  |  |  | 0.045  |
| Pick up  |  |  |  |  | 0.023  | 0.138  |  |  |  |  | 0.161  |
| Telehandler  |  |  | 0.045  |  |  |  |  |  |  |  | 0.045  |
| Rescue Team Van  | 0.123  |  |  |  |  |  | 0.114  |  |  |  | 0.237  |
| Mini bus  |  |  |  |  | 0.028  |  |  |  |  |  | 0.028  |
| Van - Catering Unit  |  |  | 0.030  |  |  |  |  |  |  |  | 0.030  |
| Van - Dog Unit  |  | 0.055  |  |  |  |  |  |  |  |  | 0.055  |
| Van - Large  |  | 0.034  | 0.034  | 0.034  | 0.067  | 0.067  | 0.067  |  |  |  | 0.302  |
| Van - Small |  |  |  | 0.023 | 0.023 |  |  |  |  |  | 0.045 |
| **Subtotal**  | **3.169**  | **1.556**  | **1.558**  | **1.594**  | **2.121**  | **1.291**  | **1.795**  | **0.880**  | **0.440**  | **1.000**  | **15.403**  |
| **Operational Equipment**  |  |  |  |  |  |  |  |  |  |  |  |
| Breathing Apparatus sets & telemetry  |  | 1.000 | 0.900 | 0.320 |  |  |  |  |  |  | 2.220 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **£'m**  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  | **29/30**  | **30/31**  | **31/32**  | **32/33**  | **33/34**  | **TOTAL**  |
| Breathing Apparatus compressor | 0.053 | 0.018  |  | 0.018  | 0.053  | 0.063  | 0.018  | 0.071  | 0.018  |  | 0.310  |
| Road Traffic Collision Cutting Equipment  | 0.750  |  |  |  |  |  |  |  |  |  | 0.750  |
| Ballistic Vest & Helmet  | 0.250  |  |  |  |  |  |  |  |  |  | 0.250  |
| Flow Meters & 22mm Hose Reels  | 0.144  |  |  |  |  |  |  |  |  |  | 0.144  |
| Drone  | 0.030  |  |  | 0.030  |  |  | 0.030  |  |  |  | 0.090  |
| General  |  |  |  |  |  | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 1.250  |
| Disposable Gastight Suits | 0.042 |  |  |  | 0.500 |  |  |  |  |  | 0.542 |
| **Subtotal**  | **1.269**  | **1.018**  | **0.900**  | **0.368**  | **0.553**  | **0.313**  | **0.298**  | **0.321**  | **0.268**  | **0.250**  | **5.556**  |
| **Buildings**  |  |  |  |  |  |  |  |  |  |  |  |
| Wylfa Training Prop  | 0.125  |  |  |  | 0.500  |  |  |  |  |  | 0.625  |
| Blackpool Dormitory  | 0.835  |  |  |  |  |  |  |  |  |  | 0.835  |
| Drill tower replacements  | 1.155 | 0.600 | 0.600 | 0.600 |  |  |  |  |  |  | 2.955 |
| Estate Improvement Provision | 0.349 | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 0.250  | 2.599  |
| Upgrade Preston facilities  | 0.500  |  |  |  |  |  |  |  |  |  | 0.500  |
| Replacement Preston Station  |  |  |  |  | 10.000  |  |  |  |  |  | 10.000  |
| Headquarters relocation  |  | 9.000  | 9.000  |  |  |  |  |  |  |  | 18.000  |
| Fulwood replacement  |  |  |  | 7.000  |  |  |  |  |  |  | 7.000  |
| Training Centre Props  |  | 5.000  | 5.000  |  |  |  |  |  |  |  | 10.000  |
| Stock condition and decarbonisation surveys  | 0.130  |  |  |  |  |  |  |  |  |  | 0.130  |
| Wider Estate Planned Maintenance & Improvement Works  | 0.100  |  |  |  |  | 1.646  | 1.158  | 2.049  | 2.542  | 2.000  | 9.495  |
| Development & Land Acquisition  | 0.340 | 0.500 | 0.500 |  |  |  |  |  |  |  | 1.340 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **£'m**  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  | **29/30**  | **30/31**  | **31/32**  | **32/33**  | **33/34**  | **TOTAL**  |
| **Subtotal**  | **3.533**  | **15.350**  | **15.350**  | **7.850**  | **10.750**  | **1.896**  | **1.408**  | **2.299**  | **2.792**  | **2.250**  | **63.478**  |
| **Information and** **Communication** **Technology (ICT)**  |  |  |  |  |  |  |  |  |  |  |  |
| Performance Management System  |  |  |  |  | 0.500  |  |  |  |  |  | 0.500  |
| Personal Protective Equipment asset tracking System  | 0.200 |  |  |  |  |  |  |  |  |  | 0.200 |
| Stock System | 0.200 |  |  |  |  |  |  |  |  |  | 0.200  |
| Asset Management (Tranman) upgrade  | 0.100  |  |  |  |  |  |  |  |  |  | 0.100  |
| Development of rota management system for Retained Duty System.  | 0.100  |  |  |  |  |  |  |  |  |  | 0.100  |
| Storage Area Network (SAN)  | 0.200  | 0.090  |  |  |  |  |  |  |  |  | 0.290  |
| Geographic Information System development  |  | 0.100  |  |  |  |  |  |  |  |  | 0.100  |
| Wide Area Network telecommunications  |  | 0.450  |  |  |  |  |  |  |  |  | 0.450  |
| Wi-Fi  | 0.135  |  |  |  |  |  |  |  |  |  | 0.135  |
| Incident Recording System  |  | 0.050  |  |  |  |  |  |  |  |  | 0.050  |
| Airwave replacement  |  | 1.000  |  |  |  |  |  |  |  |  | 1.000  |
| Incident ground radios  | 0.230  |  |  |  |  |  |  |  |  |  | 0.230  |
| Retained Duty System Alerters  | 0.065  |  |  |  |  |  |  |  |  |  | 0.065  |
| Uninterruptible Power Supply (UPS) System  |  |  |  | 0.060  |  |  |  |  |  |  | 0.060  |
| Server replacement  |  |  |  | 0.135  |  |  |  |  |  |  | 0.135  |
| **£'m**  | **24/25**  | **25/26**  | **26/27**  | **27/28**  | **28/29**  | **29/30**  | **30/31**  | **31/32**  | **32/33**  | **33/34**  | **TOTAL**  |
| Facilities Management System  | 0.100  |  |  |  |  |  |  |  |  |  | 0.100  |
| Replacement Public Switched Telephone Network | 0.070 |  |  |  |  |  |  |  |  |  | 0.070 |
| Further digitisation of the appliances | 0.085 | 0.085 | 0.085 |  |  |  |  |  |  |  | 0.255 |
| NWFC Computer Aided Design Capital Contribution | 0.692 | 0.561 | 0.561 |  |  |  |  |  |  |  | 1.814 |
| ICT Indicative Future Development & Replacement Budget |  |  |  |  |  | 0.500 | 0.500 | 0.500 | 0.500 | 0.500 | 2.500 |
| Firefighting Robot  | 0.048  |  |  |  |  |  |  |  |  |  | 0.048  |
| **Subtotal**  | **2.225**  | **2.336**  | **0.646**  | **0.195**  | **0.500**  | **0.500**  | **0.500**  | **0.500**  | **0.500**  | **0.500**  | **8.402**  |
| **TOTAL CAPITAL REQUIREMENT**  | **10.196**  | **20.259**  | **18.454**  | **10.006**  | **13.924**  | **4.000**  | **4.000**  | **4.000**  | **4.000**  | **4.000**  | **92.840**  |
| **Funding**  |  |  |  |  |  |  |  |  |  |  |  |
| Revenue Contributions  | 2.500  | 2.000  | 3.000  | 3.500  | 4.000  | 4.000  | 4.000  | 4.000  | 4.000  | 4.000  | 35.001  |
| Capital Reserve  | 7.696  | 11.102  |  |  |  |  |  |  |  |  | 18.798  |
| Capital Receipts |  |  |  | 5.000 |  |  |  |  |  |  | 5.000 |
| Grants  |  | 1.000  |  |  |  |  |  |  |  |  | 1.000  |
| Borrowing  |  | 6.157  | 15.454  | 1.506  | 9.924  |  |  |  |  |  | 33.041  |
| **Total**  | **10.196**  | **20.259**  | **18.454**  | **10.006**  | **13.924**  | **4.000**  | **4.000**  | **4.000**  | **4.000**  | **4.000**  | **92.840**  |

Note: The 2024/25 capital programme includes slippage from the 2023/24 capital programme approved by the Resources Committee during the year and the following additional slippage items due to timing delays: Fire Appliance £0.3m, Wylfa Prop £0.1m, Blackpool Dormitory £0.5m, Drill Tower replacements £0.6m and Estate Improvements £0.1m. These will be delivered in the first quarter of the 2024/25. The resulting revised capital programme for 2023/24 is £7.6m.

**Reserves Strategy**

**Background**

The Local Government Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

In addition to the above requirement, Section 25 of the Local Government Act

2003 also requires the Treasurer (the Director of Corporate Services for the Authority) to present a report assessing the adequacy of the unallocated reserves (referred to as the General Reserve) in the context of threats and demands together with corporate and financial risks facing the organisation. The Authority needs to balance the necessity for reserves against the cost to council taxpayers and arrive at a level that is both prudent and adequate for the current climate, but not excessive.

The Reserves Strategy sets out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level. Reserves are held for three main purposes:

To cover unforeseen risks and expenditure that may be incurred outside of planned budgets – known as a general reserve.

To set-aside funds for specific purposes, known or predicted pressures, or future liabilities – known as earmarked reserves.

To hold capital receipts from sale of assets, the use of which is restricted under legislation to the purchase of new assets, or the repayment of debt.

In addition to holding financial reserves, there are several safeguards in place that mitigate against the risk of local authorities over-committing themselves financially:

There is a legal requirement to set a balanced budget.

In accordance with the 1988 Local Government Finance Act, the Chief Finance Officer (DoCS for the Authority), must report if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted, and it is forecast that expenditure will exceed resources.

The external auditor’s responsibility to review and report on financial standing.

While it is primarily the responsibility of Members and the DoCS to maintain a sound financial position, the external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. The work undertaken by external auditors will include a review of the level of reserves and the advice given to Members by the DoCS.

The Fire and Rescue National Framework (May 2018), includes the requirement that fire authorities “should establish a policy on reserves and provisions in consultation with their Chief Finance Officer”. It also requires that “fire authorities should publish their Reserves Strategy, including details of the current and future planned levels, the purpose for which each reserve is held and how each reserve supports the Medium Term Financial Strategy (MTFS).

**Determining the level of Reserves**

There is no statutory guidance on the “right” level of reserves. Guidance from The Chartered Institute of Public Finance and Accountancy (CIPFA) confirms that each authority should make, on the advice of the Treasurer, their own judgement based on relevant local circumstances and the potential issues/risks that may occur across the medium term.

In determining an appropriate level of reserves for the Authority the range of risks and issues that should be considered will include the following:

The possibility of additional savings being required in the future and the potential difficulty in delivering such savings. Future funding levels are unclear with only the 2024/25 funding known. If increased demands or commitments outstrip funding, savings will be required.

The provision of cover for extraordinary or unforeseen events occurring. Given that the purpose of the fire and rescue service is to respond to emergency situations, there is always the potential for additional, unexpected, and unbudgeted expenditure to occur.

The level of self-insurance that is carried to minimise insurance premiums: potential insurance liabilities can vary significantly across financial years. The levels of liabilities are difficult to forecast accurately, and it would not be appropriate to budget for peak levels of expenditure on self-insured liabilities.

The commitments falling on future years because of capital plans and proposals to improve/develop the assets held by the Authority. Having reserves would mitigate the impact on the revenue budget of borrowing and/or the need to make further revenue contributions to capital and would support projects and programmes that will improve the assets held by the Authority.

**Purpose and Use of each Reserve**

The General Reserve and each Earmarked Reserve and its purpose is set out in Appendix 1; together these are known as the Usable Reserves. Each earmarked reserve has a set manager who is responsible for that reserve. Movement to and from reserves is in the first instance is approved by the Authority as part of the annual budget.

Reporting of the level of reserves and forecast outturn will be provided as part of the quarterly budget updates submitted to the Resources Committee.

The Authority holds a Public Finance Initiative (PFI) reserve for each of its PFI accommodation schemes. Annual PFI Grants exceed the annual unitary charge in the earlier years of the contract and are set aside to part fund the unitary charge in the later years of the contract when the unitary charge exceeds the PFI grants.

It is good practice for an Authority to review its reserves on a regular basis to consider each reserve. This is to ensure that the level that is both prudent and adequate for the current climate, but not excessive. A review has been undertaken based on historical analysis and the current environment and future resulting in a rationalisation of several reserves. This review resulted in transferring some elements of the insurance and pay reserves to the general reserve and Innovation Fund.

**Overall Position**

13. The forecast balances on usable reserves is set out in Appendix 1. One of the key elements of the Reserves Strategy will be to use the earmarked Capital Reserves to support the Capital Strategy. The Capital Strategy anticipates utilising the capital reserve over the next two years.

**Appendix Usable Reserves**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Forecast**  | **Estimated**  | **Estimated**  | **Estimated**  | **Estimated**  | **Estimated**  |
| **Reserve - Purpose**  | **2023/24 £m**  | **2024/25 £m**  | **2025/26 £m**  | **2026/27 £m**  | **2027/28 £m**  | **2028/29 £m**  |
| General Reserve - min level £3.75m  | 4.8  | 4.9  | 5.1  | 4.8  | 4.9  | 4.9  |
| **Earmarked Reserves**  |  |  |   |   |   |   |
| Capital Reserve - to fund capital expenditure  | 18.8  | 11.1  | 0.0  | 0.0  | 0.0  | 0.0  |
| PFI Reserves - PFI Grants set aside to offset future charges  | 4.9  | 4.8  | 4.6  | 4.4  | 4.1  | 3.8  |
| Budget Holders Reserves - enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits.  | 0.6  | 0.3  | 0.3  | 0.2  | 0.2  | 0.1  |
| Insurance - The maximum insurance costs to the Authority are £0.7m - together with the provision this reserve will meet 1 year's maximum claims.  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  |
| Princes Trust - to manage funding timing differences and mitigate the risk of loss of funding in the short term.  | 0.4  | 0.4  | 0.4  | 0.4  | 0.4  | 0.4  |
| Innovation Fund - to meet the costs of new initiatives / developments which improve service delivery of fire fighter safety subject to approval of the Executive Board.  | 0.5  | 0.4  | 0.3  | 0.2  | 0.1  | 0.0  |
| **Total**  | **30.2**  | **22.1**  | **10.9**  | **10.2**  | **9.9**  | **9.4**  |

**Appendix D**

**Treasury Management Strategy**

# Introduction

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

The 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. The Code also requires the Authority to approve a treasury management strategy before the start of each financial year. The authority also adheres to investment guidance issued by the then Ministry of Housing, Communities and Local Government (MHCLG).

The definition of investments in the codes is wide raging and includes nontreasury investments for example loans to third parties and the holding of property to make a profit. Where these are held a separate strategy is required. However, it is not considered that the Combined Fire Authority hold any such assets and it does not propose to engage in any such investments in 2024/25.

# Treasury Management Strategy for 2024/25

This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code of Practice. Accordingly, the Lancashire Combined

Fire Authority's Treasury Management Strategy will be approved by the full Authority, and there will also be a mid-year and a year-end outturn report presented to the Resources Committee. In addition, there will be monitoring and review reports to members in the event of any changes to Treasury

Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities regarding delegation and reporting.

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

Table 1 Treasury Management reporting arrangements

|  |  |  |
| --- | --- | --- |
| **Area of Responsibility**  | **Committee/ Officer**  | **Frequency**  |
| Treasury Management Policy Statement  | Resources Committee/Authority  | Annually  |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval  | Resources Committee/ Authority  | Annually before the start of the year  |

1

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

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

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

# Setting the Treasury Management Strategy for 2024/25

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

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

**Economic background:**

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority’s treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for

Consumer Price Index (CPI) inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

The UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

# Interest rate Forecast

Many commentators consider that with inflation and wage growth falling, the

Bank Rate has peaked at 5.25%. It is anticipated that the Bank of England’s Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Both the forward markets and the County Councils treasury management adviser are anticipating cuts to start by mid-2024 and that they will fall to around 3% by September 2026.

# Current Treasury Portfolio Position

At the 31 December 2023, the debt and investments balances were: Table 2 Debt and Investments balances

|  |  |  |
| --- | --- | --- |
| **Debt**  | **Principal**  | **%**  |
| **£m**  |
| Fixed rate loans from the Public Works Loan Board  | 2.000  | 100  |
| Variable rate loans  | -  | -  |
| **Total**  | **2.000**  | **100**  |
| **Investments**  |   |   |
| Variable rate investments with Lancashire County Council  |  7.695  | 25.0  |
| Fixed rate investments  | 23.500  | 75.0  |
|  **Total**  | **31.195**  | **100**  |

The level of investments represents the Authority’s cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is a net investment figure of £29.195m.

# Borrowing and Investment Requirement

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

The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme which currently assumes that there will be no borrowing until 2026/27. A voluntary Minimum Revenue Provision (MRP) was made in 2019/20 to take the future loans element of the MRP to nil.

Table 3 Borrowing/Investment Need

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 31/03/2024  | 31/03/2025  | 31/03/2026  | 31/03/2027  |
|  | £m  | £m  | £m  | £m  |
| Capital Financing Requirement  | 12.351  | 11.868  | 17.496  | 32.248  |
| Less long-term liabilities (PFI and finance leases)  | -12.351  | -11.868  | -11.339  | -10.760  |
| Less external borrowing  | -2.000  | -2.000  | -2.000  | -2.000  |
| **Borrowing requirement**  | **-2.000**  | **-2.000**  | **4.157**  | **19.488**  |
|  |  |  |  |  |
| Reserves and working capital  | 31.558  | 30.012  | 22.316  | 11.214  |
| **(Borrowing)/Investment need**  | **33.558**  | **32.012**  | **18.159**  | **-8.274**  |

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Authority’s total debt should be lower than its highest forecast CFR over the next three years. However, the table above shows that the level of loans was above the CFR at 31/3/23. This was the result of the Authority adopting a policy of setting aside additional MRP to generate the cash to repay loans either on maturity or as an early repayment.

The table above indicates that rather than having a need for borrowing it is estimated that the authority has an underlying need to invest until 2025/26 although the available balances are forecast to reduce. Based on the latest capital programme the authority will have a borrowing requirement in 2026/27.

Although the Authority does not have plans for new borrowing until 2026/27 it does currently hold £2.0m of loans as part of its strategy for funding previous years' capital programmes.

# Liability benchmark

The liability benchmark is an indicator required by the CIPFA Code. It looks to compare the Council’s actual borrowing requirements against an alternative strategy, a liability benchmark, which shows the minimum level of borrowing.

This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk. In addition, it reflects the latest Capital Programme information which shows a borrowing requirement from 2026/27 onwards. The liability benchmark is shown in the graph below: Graph 1 showing Liability Benchmark and Borrowing Scenarios



The benchmark shows that from 2026/27 there is likely to be a long-term requirement to borrow but that this does not necessarily have to be at the level of the loans CFR, which represents the maximum borrowing. The borrowing requirement is also reducing over time which may influence the length and type of borrowing to be taken.

# Borrowing Strategy

The draft Capital Programme implies there may be a requirement to use borrowing to fund the capital programme in the later years. At this stage it is extremely unlikely that borrowing will be required in 2024/25. However, it is still best practice to approve a borrowing strategy and a policy on borrowing in advance of need. In considering a borrowing strategy the Authority needs to make provision to borrow short term to cover unexpected cash flow shortages or to cover any change in the financing of its Capital Programme.

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

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

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

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

# Policy on Borrowing in Advance of Need

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

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

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

# Debt Restructuring

The Authorities debt has arisen because of prior years' capital investment decisions. It has not taken any new borrowing out since 2007 as it has been utilising cash balances to pay off debt as it matures, or when deemed appropriate with the authority making early payment of debt. The anticipated holding of debt at 31 March 2024 is £2.0m. All the debt is from the Public Works Loans Board (PWLB) and is all at fixed rates of interest and is repayable on maturity. The table below shows the maturity profile and interest rate applicable on these:

Table 4 Outstanding Loans

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

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

If the loans were to be repaid early there would be an early repayment

(premium) charge. Previous reports on treasury management activities have reported that the premium and the potential loss of investment income have been greater than the savings made on the interest payments therefore it has not been considered financially beneficial to repay the loans especially with the potential for increased interest rates. However, at the 30 September the estimated premium charge to repay the three loans was minimal although rates and the premium change daily. To offset the net savings on repaying the loans it was estimated that future interest on investments over the remaining period of the loans would need to be 4.5%. If it is estimated that investment interest rates will be lower than this figure, then it may be beneficial to repay the loans.

# Investment Strategy

On 31 December 2023, the Authority held £31.195m invested funds, representing income received in advance of expenditure plus existing balances and reserves. During the year, the Authority’s investment balance has ranged between £49m and £26m. The variation arises principally due to the timing of the receipt of government grants. It is anticipated that there will be reduced cash levels in the forthcoming year, due to a drawdown in reserves to finance capital expenditure.

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

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

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

Table 5 Investment Counterparties

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

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

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

Table 6 Investment Limits with Local Authorities

|  |  |  |  |
| --- | --- | --- | --- |
|   | Maximum individual investment (£m)  | Maximum total investment (£m)  | Maximum period  |
| Up to 2 years  | 5  | 40  | 2 years  |
| Over 2 years  | 5  | 25  | 10 years  |

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

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

In respect of banks taxpayers will no longer bail-out failed banks instead the required funds will be paid by equity investors and depositors. Local authorities' deposits will be at risk and consequently although currently available within the policy it is unlikely that long term unsecured term deposits will be used at the present time.

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

The Authority currently has access to a call (instant access) account with a local authority, which pays bank base rate, this is currently 5.25%. Each working day the balance on the Authority's current account is invested to ensure that the interest received on surplus balances is maximised.

In addition, longer term loans have been placed with UK local authorities to enhance the interest earned. To this end at the following investments are already impacting 2024/25.

Table 7 Current Investments

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  Start Date  | End Date  | Principal  | Rate  | Interest 2024/25 |
| 17/10/2023  | 15/10/2024  | £5,000,000  | 5.55%  | £150,534  |
| 20/11/2023  | 18/11/2024  | £5,000,000  | 5.85%  | £185,918  |
| 12/12/2023  | 12/09/2024  | £5,000,000  | 5.60%  | £126,575  |
| 14/12/2023  | 12/12/2024  | £3,500,000  | 5.05%  | £123,967  |
| 24/02/2024  | 21/02/2025  | £5,000,000  | 5.55%  | £245,616  |

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

Table 8 Indicative Interest Rates on Investments with other Local Authorities

|  |  |
| --- | --- |
| 3-month investment  | 5.43 – 5.63%  |
| 6-month investment  | 5.40 – 5.60%  |
| 12-month investment  | 5.36 – 5.56%  |
| 3-year investment  | 4.33 - 4.53%  |
| 4-year investment  | 4.15 - 4.35%  |

The overall combined amount of interest earned on Fixed/Call balances as at 31 December 2023 is £1.173m on an average balance of £36.151m at an annualised rate of 4.31%. This is less than the benchmark 7-day London Interbank Bid Rate (LIBID) rate which averages a yield of 4.89% over the same period.

In addition to the above the authority uses NatWest for its operational banking. Balances retained in NatWest are very low, usually less than £5,000. However, if required monies are retained at NatWest this would be in addition to the limits set out above.

# Minimum Revenue Provision (MRP)

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

The Authority will assess their MRP for 2024/25 in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Authority made a voluntary MRP in 2019/20 and it is anticipated that the MRP on loans will be nil in 2024/25 this will be the case until capital expenditure is financed by borrowing.

Whilst the Authority has no unsupported borrowing, nor has any plans to take out any unsupported borrowing in 2024/25 it is prudent to approve a policy relating to the MRP that would apply if circumstances changed. As such in accordance with guidelines, the MRP on any future unsupported borrowing will be calculated using the Asset Life Method. This will be based on a straightforward straight – line calculation to set an equal charge to revenue over the estimated life of the asset. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

Assets held under a PFI contracts and finance leases form part of the Balance Sheet. This has increased the overall capital financing requirement and results in an MRP charge being required. The government guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

# Revenue Budget

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

Table 9 Capital Financing Charges Included in Revenue Budget

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | 2023/24  | 2024/25  | 2025/26  | 2026/27  |
|   | £m  | £m  | £m  | £m  |
| Interest payable  | 0.090  | 0.090  | 0.398  | 1.170  |
| MRP  | 0.000  | 0.000  | 0.000  | 0.123  |
| Interest receivable  | (1.300)  | (1.050)  | (0.650)  | (0.650)  |
| Net budget  | (1.210)  | (0.960)  | (0.252)  | (0.643)  |

**Prudential Indicators for 2023/24 to 2026/27 in respect of the Combined Fire Authority's Treasury Management Activities.**

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

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

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

# Treasury Management Prudential Indicators

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2023/24** £m | **2024/25** £m | **2025/26** £m | **2026/27** £m |
| Adoption of the Revised CIPFA Code of Practice on Treasury Management |  |  |  |  |
| Authorised limit for external debt : |  |  |  |  |
| Borrowing | 4.000 | 4.000 | 15.000 | 30.000 |
| Other long-term liabilities | 30.000 | 30.000 | 30.000 | 30.000 |
| **Total** | **34.000** | **34.000** | **45.000** | **60.000** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2023/24** £m | **2024/25**£m | **2025/26** £m | **2026/27** £m |
| **Operational boundary for external debt** |  |  |  |  |
| Borrowing | 3.000 | 3.000 | 10.000 | 25.000 |
| Other long-term liabilities | 16.000 | 16.000 | 15.000 | 15.000 |
| **Total** | **19.000** | **19.000** | **25.000** | **43.000** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2023/24** | **2024/25** | **2025/26** | **2026/27**  |
| **Upper limit for fixed interest rate exposure**   |  |  |  |  |
| Upper limit of borrowing at fixed rates  | 100% | 100% | 100% | 100% |
| Upper limit of investments at fixed rates  | 100% | 100% | 100% | 100% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2023/24** | **2024/25** | **2025/26** | **2026/27**  |
| **Upper limit for variable rate exposure**   |  |  |  |  |
| Upper limit of borrowing at fixed rates  | 50% | 50% | 50% | 50% |
| Upper limit of investments at fixed rates  | 100% | 100% | 100% | 100% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2023/24** £m | **2024/25** £m | **2025/26**£m | **2026/27**£m |
| **Upper limit for total principal sums invested for over 364 days (per maturity date)**  | 25.000 | 25.000 | 25.000 | 25.000 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|

|  |  |  |
| --- | --- | --- |
| **Maturity structure of Debt**   | **Upper Limit %** | **Lower Limit %** |
| Under 12 months  | 100 | - |
| 12 months and within 24 months  | 50 | - |
| 24 months and within 5 years  | 50 | - |
| 5 years and within 10 years  | 75 | - |
| 10 years and above  | 100 | - |

 |   |   |   |   |

# Estimated Capital Expenditure

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **2022/23 actual**  | **2023/24 forecast**  | **2024/25 budget**  | **2025/26 budget**  |
|   | £m  | £m  | £m  | £m  |
| Capital Expenditure  | 1.635  | 7.598  | 10.196  | 20.259  |

# Proportion of Financing Costs to Net Revenue Stream

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **2022/23 actual**  | **2023/24 budget**  | **2024/25 budget**  | **2025/26 budget**  |
| Financing costs (£m)  | -0.747  | -1.210  | -0.960  | -0.252  |
| Proportion of net revenue stream  |  -1.18%  | -1.77%  | -1.28%  | -0.33%  |

**Appendix 1**

# Treasury Management Policy Statement

The Fire Authority adopts the key recommendations of CIPFA’s Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

 Accordingly, the Authority will create and maintain, as the cornerstones for effective treasury management:

* A treasury management policy statement stating the policies, objectives, and approach to risk management of its treasury management activities.
* Suitable Treasury Management Practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

 The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Resources Committee and for the execution and administration of treasury management decisions to the Director of Corporate Services, who will act in accordance with the organisation’s policy statement and TMPs, IMPs and CIPFA’s Standard of Professional Practice on treasury management.

The Authority nominates the Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

# Definition

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

# Risk management

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

# Value for money

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

# Borrowing policy

The Fire Authority greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. However, short term and variable rate loans may be borrowed to either offset shortterm and variable rate investments or to produce revenue savings. The Authority will also constantly evaluate debt restructuring opportunities of the existing portfolio.

The Fire Authority will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003* and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

# Investment policy

The Fire Authority’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Fire Authority will have regard to the then Ministry of Housing, Communities and

Local Government Guidance on Local Government Investments. It will approve an Investment Strategy each year as part of the Treasury Management Strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.