



Essex County
Fire & Rescue Service

Essex County Fire and Rescue Service Treasury Management Strategy

2024/25

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1. Background

The Authority has engaged with Arlingclose, treasury management advisors, to provide support in producing this strategy. All decisions relating to treasury management are the responsibility of the Authority.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2. Policy Statement

Treasury management activities are defined 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.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities are 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.

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

3. Highlights

- a. The Authority may need to borrow in 2025/26 to deliver the capital programme.
- b. The Authority is compliant with the recommendations of the CIPFA's Prudential Code for Capital Finance.
- c. At the time of this report, loans of £23.5m are held against an approved limit of £40m of debt.
- d. The Authority is unable to repay loans early without significant penalties.
- e. The Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile.
- f. The Approved Counterparty Limits (table 4) shows the latest risk profile of the Authority.
- g. There is strong governance at the Authority in respect of treasury management, including reporting of KPI's in the monthly Performance & Resources Board.

4. Changes Since 2023/24 Treasury Management Strategy

- a. The Capital Financing Requirement (CFR) is forecast to increase to £31.9m by 2024/25, which is £0.7m higher than under the previous strategy (£31.2m). This is due to changes reflected in the Capital Programme (see Capital Strategy 2024/25).
- b. As a result, the Authority may need to borrow £15.5m in 2026/27. Under the previous strategy, the Authority was forecast to borrow £9.4m in 2025/26.
- c. This is in addition to assumed borrowing required for the Joint Fleet Workshops Project, which totals £8.2m by 2027/28. This was not included in the previous Strategy.
- d. The Liability Benchmark is forecast to increase to £49.2m. Under the previous strategy, this was forecast as £40.9m. The increase is a result of additional forecast capital expenditure, see the Capital Strategy 2024/25 for further detail.
- e. The Approved Counterparty Limits (table 4) has been updated to reflect the latest risk profile of the Authority.

4. Local Context

On 31st March 2023, the Authority held £23.5m of borrowing and £16.1m of cash available to invest. This is set out in further detail at **Appendix C**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast (further detail 31.3.23 at appendix D) (31.3.23 as per unaudited financial statements)

	Actual 2022/23 £Million	Forecast 2023/24 £Million	Forecast 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million
General Fund CFR	32.1	29.1	31.9	33.0	44.1	43.9	40.8	37.7	32.6	27.9	23.9
Less: External Borrowing ¹	(23.5)	(23.5)	(22.5)	(21.5)	(21.5)	(21.5)	(16.5)	(11.5)	(6.5)	(6.5)	(4.5)
Less: Assumed Borrowing ²	0.0	0.0	0.0	(0.2)	(1.6)	(8.2)	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)
Internal financing ³	8.6	5.6	9.4	11.3	21.0	14.3	19.2	21.1	21.0	16.4	14.3
Earmarked and General Reserves ⁴	(11.0)	(8.4)	(7.1)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
Capital Receipts Reserve ⁴	(15.7)	(12.3)	(10.5)	(6.2)	(0.7)	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Working Capital	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Investments/ (external financing) ⁵	16.1	13.0	6.2	(0.3)	(15.5)	(9.5)	(14.4)	(16.3)	(16.2)	(11.6)	(9.5)

¹ Shows only loans to which the Authority is committed and excludes optional refinancing, assumed borrowing is additional committed borrowing.

² Assumed borrowing to finance the Joint Fleet Workshop project (see Assumed Borrowing, page 8).

³ Refers to capital expenditure funded through internal financing such as reserves and working capital.

⁴ Earmarked, Capital and General Reserves are forecast to fall going forward as reserves are utilized for projects.

⁵ Cash available to invest could reduce, as reserves are utilized for projects. A negative investment balance indicates additional borrowing.

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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal financing. The Authority's capital expenditure plans may require additional external borrowing in 2025/26 based on the table above - the liability benchmark and borrowing strategy is set out later in this report. Funds available for investment are forecast to fall due to higher budgeted capital expenditure in later years, which cannot be fully funded by capital receipts.

Investments fall from 22/23 due to the planned use of Earmarked and Capital Receipts Reserves to fund projects.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* requires authorities to estimate and measure its liability benchmark over as a minimum, the next three years, however, recommends that the liability benchmark is produced for at least ten years and should ideally cover the full debt maturity profile of the authority. The Authority's total debt should be lower than its highest forecast CFR. Table 1 shows that the Authority expects to comply with this recommendation during 2024/25.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 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.

The liability benchmark is an important tool to help establish whether the Service is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

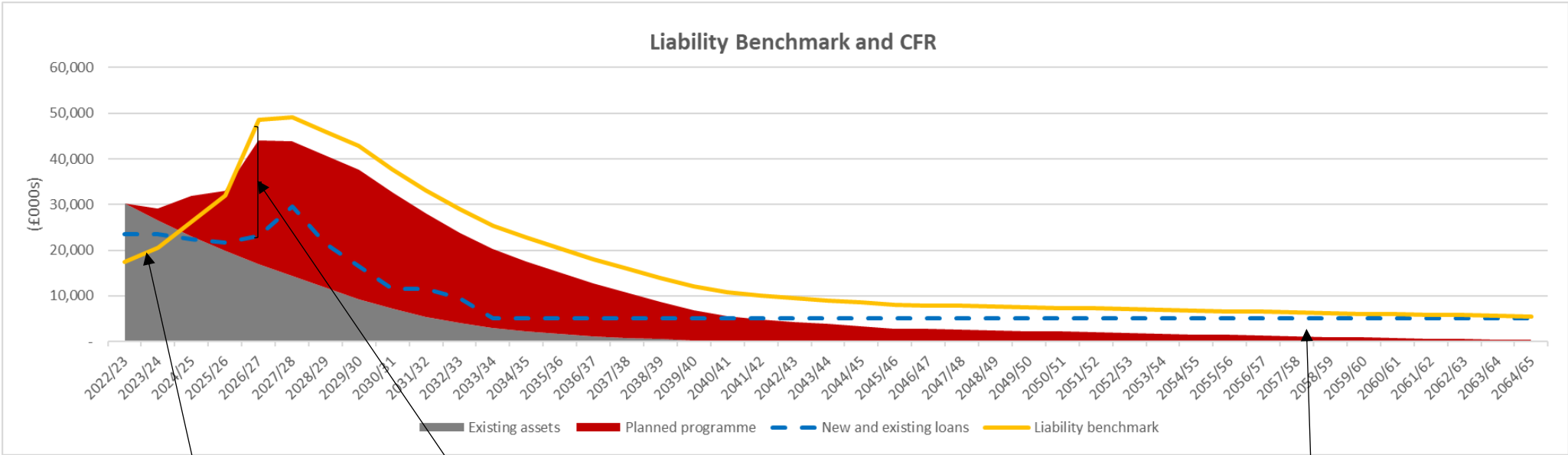
Liability Benchmark	Actual 2022/23 £Million	Forecast 2023/24 £Million	Forecast 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million
Loans CFR	32.1	29.1	31.9	33.0	44.1	43.9	40.8	37.7	32.6	27.9	23.9
Less: Usable reserves	(26.7)	(20.7)	(17.6)	(13.0)	(7.5)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
Plus: Working capital	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Plus: Minimum investments	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	17.4	20.5	26.3	32.1	48.6	49.2	46.0	42.9	37.8	33.2	29.1

The table above shows that the liability benchmark of the Authority could increase to £49.2m by 2027/28. This indicates an underlying need to borrow due to a reduction in usable reserves and a significant increase in the capital finance requirement. The main conclusions to be drawn from this are:

- a) The Authority does not have sufficient existing borrowing to fund the existing Capital Programme.
- b) The Authority may need to increase the authorised limit on external debt of £40m given a liability benchmark of £49.2m in 2027/28. This is a forecast of the amount the Service could be required to borrow.

Graph 1: Liability benchmark

In the graph below, the capital financing requirement, assumed borrowing and liability benchmark have been extrapolated across the life of the capital programme. CIPFA recommends that the liability benchmark should be produced to cover the full debt maturity profile of the Authority:



Borrowing higher than liability benchmark:
 The Authority has more debt that it requires, meaning excess cash is available to invest.

Borrowing lower than liability benchmark:
 CFR increases in line with capital programme.

 The Service needs more debt to finance the capital programme.

Borrowing equal to the liability benchmark:
 Over time, new and assumed loans are equal to the liability benchmark, but this assumes no capital expenditure after 2028/29.

Table 3: Debt profile as at 31st March 2023

Total capital repayable	£Million
Repayable within 1 year	nil
Repayable within 2-5 years	2.0
Repayable within 5-10 years	17.0
Repayable within 10-15 years	4.5
Total	23.5

The table above shows high debt expiry in 5-10 years of £17m. The Authority will need to refinance to meet these repayments. The borrowing strategy is considered in the next section.

Table 4: Assumed Borrowing

Assumed Borrowing	Forecast 2022/23 £Million	Forecast 2023/24 £Million	Forecast 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million
Existing Borrowing	23.5	23.5	22.5	21.5	21.5	21.5	16.5	11.5	6.5	6.5	4.5
New Borrowing	0.0	0.0	0.0	0.2	1.6	8.2	5.1	5.1	5.1	5.1	5.1
Total Assumed Borrowing	23.5	23.5	22.5	21.7	23.1	29.7	21.6	16.6	11.6	11.6	9.6

The Authority has progressed with a full business case for the collaborative design and build of a joint fleet workshop with Essex Police. This project assumes part of the expenditure is funded by external borrowing, shown in the table above.

Related Strategies

The Treasury Management Strategy has been produced alongside several other key strategies of the Authority. These Strategies were prepared based on the same underlying forecasts and assumptions. These Strategies are:

- Reserves Strategy
- Medium Term Financial Strategy
- Capital Strategy and MRP Policy

5. Borrowing Strategy

At the time of this report, the Authority holds £23.5 million of loans as part of its strategy for funding previous years' capital expenditure. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2024/25. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £40 million. The liability benchmark shows that the Authority may need to borrow to maintain minimum investments of £10m. The borrowing requirement in the current strategy is a result of the planned capital programme. For further detail, please refer to the 2024/25 Capital Strategy.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

By doing so, the Authority can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages. Future borrowing will be driven by business need, once Full Business Cases for key capital projects are available. The sources of borrowing available to the Authority are discussed below:

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

The revised CIPFA Prudential Code for Capital Finance in Local Authorities was issued on 20 December 2021 and was effective from 1 April 2022. This introduces new rules for borrowing to fund the purchase of assets, primarily for a return (investment properties). The Service is fully compliant with this requirement, and any future borrowing will be compliant with the Prudential Code.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Commissioner.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

6. Investment Strategy

The Authority holds modest levels of invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority’s treasury investment balance has ranged between £9 and £24 million; however, levels are expected to fall going forward due to investment in the Capital Programme.

Investment Activity 2022/23:

Investment	Category	Average Invested	Average Interest %	Interest Received
Morgan Stanley	MMF	£2.75M	2.3%	£82.5K
Lloyds	Bank (unsecured)	£1M	0.9%	£7.6K
CCLA	MMF	£3M	2.3%	£93.2K
UK Debt Management Office	UK government	£17M	2.3%	£281.3K

Objectives: The CIPFA Code requires the Authority to invest its treasury 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 of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: Given that investment balances are projected to fall and then remain low, the Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile. All the Authority’s surplus cash is currently invested in money market funds, UK Government Investments and fixed term deposits bank deposit.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under IFRS 9, the accounting for certain investments depends on the Authority’s “business model” for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	10 years	Unlimited	Unlimited
Local authorities & other government entities	5 years	£1m	Unlimited
Secured investments *	6 months	£1m	Unlimited
Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	6 months	£1m	£3m
Registered providers (unsecured) *	6 months	£1m	Unlimited
Money market funds *	n/a	£3m	Maximum 50% of total investments
Strategic pooled funds	n/a	£1m	£5m

This table must be read in conjunction with the notes below.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1m per counterparty as part of a diversified pool e.g., via a peer-to-peer platform.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

The Service uses bank deposits to generate a return on short term investments.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

The Service does not currently utilise secured bank investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

The Service utilises Government investments to provide a guaranteed return over fixed periods (normally 1-6 months).

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and typically low price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wider diversification of investment risks, coupled with the services of a professional fund manager. These funds come under pressure during early 2020 as the demand for liquidity grew due to external factors, and significant withdrawals were required. As it remains unclear how much the Bank of England would be willing to support MMF market participants in future, as well as the potential for further regulations to be introduced, the 50% sector limit has been maintained. Therefore, whilst the investment guidance for money market funds (MMF) is set out in Table 4, the guideline exposure for these funds will also incorporate the following:

1. Investment exposure of no more than 0.5% of the total MMF (if a government MMF then this can be 2%).
2. Investment exposure is diversified, as far as practical, over multiple MMF's, with a maximum of £3m being invested in a specific fund.

The Service utilises money market fund investments to generate a return while providing liquidity, as funds can be returned on the same day.

Strategic pooled funds: Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

The Service does not currently utilise Strategic Pooled Funds.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

The Service does not currently utilise real estate investment trusts.

Operational bank accounts: The Authority has an operational bank account with Lloyds, and an exception applies where forecast cash outflows (e.g. salaries or supplier payments) necessitate additional funds being held. In these instances, a balance of up to £8m is permitted.

The Authority may incur operational exposures, for example, through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept in accordance with the criteria in Table 4. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury staff, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority’s revenue reserves available to cover investment losses are expected to be £8.4 million at 31st March 2024 and £7.1 million at 31st March 2025, being General plus Earmarked Reserves. To minimise over-exposure, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million for 2024/25. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers’ nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 5: Investment limits

Investment Type	Cash limit
Any group of pooled funds under the same management	£2m per manager
Negotiable instruments held in a broker’s nominee account	£2m per broker
Foreign countries	£1m per country

Liquidity management: The Authority uses Microsoft Excel spreadsheets for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial strategy and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

MiFID II Compliance: MiFID II is an EU regulatory framework designed to regulate financial markets and improve protections for investors. MiFID II aims to standardise practices throughout the EU and brings a larger number of firms under the supervision of an EU financial regulator. Local authorities are categorised as either “Retailer” or “Professional” investors – this categorisation give Local Authorities access to certain types of investments. In order to qualify as “Professional”, Local Authorities must meet the following criteria:

- financial instrument portfolio including cash deposits and investments, must exceed £10m;
- AND, either:
- engage in investment transactions on average ten times per quarter, over the previous four quarters; OR
- the authorised person to carry out transactions has worked in the financial sector for at least one year in a professional capacity; OR

The Authority held more than £10m in cash and investments of the previous twelve months, and members of the finance team hold professional qualifications with sufficient experience in financial services. Furthermore, the Authority has engaged with professional treasury management advisors Arlingclose for additional support.

The implications of dropping to ‘Retail’ status are:

- 1) The Authority engages with Institutional Cash Distributors Limited (ICD) as a broker for its money market fund investments. If the Authority is downgraded to ‘Retail’ status through a reduction in cash, ICD would no longer be able to trade on our behalf. This would create an administrative burden on the Finance team, as investments would need to be placed manually. The Authority may lose access to certain types of investment and preferential returns.
- 2) The PWLB have confirmed that dropping to ‘Retail’ status would not impact our ability to borrow.

Therefore, the Authority will aim to maintain compliance with MiFID II for 2024/25.

7. Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the credit rating of its investment portfolio. This is reported in the Finance Pack on a monthly basis.

Should the average portfolio credit rating falls below this measure, the Police, Fire and Crime Commissioner will be notified.

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. This is reported in the Finance Pack on a monthly basis.

Credit risk indicator	Target
Minimum credit rating, as per official credit rating agency (Fitch/Moody/S&P)	A

Liquidity risk indicator	Target
Total cash available within 3 months	£6.2m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£130,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£130,000)

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Expected 3 year impact of a 1% change in interest rates: The Service should understand the impact of a 1% rise or fall in interest rates across the next 3 years, as suggested by the Treasury Management Code. This is set out below:

	Forecast 2023/24 £million	Forecast 2024/25 £million	Forecast 2025/26 £million	Forecast 2026/27 £million
Expected Investments:				
Available cash / (new loans)	13.02	6.18	(0.31)	(15.54)
Money Market Funds	6.00	2.00	-	-
UK Government	6.00	3.00	-	-
Bank Deposits	1.00	1.00	-	-
Total Investments	13.00	6.00	-	-
Expected Interest	0.65	0.24	-	-
+1% Net Change in Interest	0.13	0.06	-	-
-1% Net Change in Interest	(0.13)	(0.06)	-	-

The Service holds fixed rate debt which is not impacted by a change in interest rates. The table to the left shows the impact of a 1% rise or fall in interest on the expected investments of the Service over the next three years. Note that the total investments equal the cash available to invest in Table 1, reducing over the next three years.

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months to 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 15 years	100%	0%
15 years and above	100%	0%

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Long-term treasury management investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond one year	£1m	£1m	£1m	£2m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

8. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy:

Liquidity Management: The Authority prepares a rolling 12-month cashflow report which is presented as part of the Finance Pack monthly. The forecast is reviewed daily to ensure short term fluctuations in cashflow are identified and mitigating plans are put in place. The Authority holds an appropriate level of highly liquid investments to mitigate liquidity risk.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures, and options). Derivatives embedded into loans and investments, including pooled funds, and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Authority has retained professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The forecast for investment income in 2024/25 is £240k, based on an average investment portfolio of £6 million at an interest rate of 4.0%. The forecast for debt interest paid in 2024/25 is £1.1 million, based on an average debt portfolio of £23.5 million at an average interest rate of 4.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Governance:

The Authority reports on Treasury Management Prudential Indicators (Section 7) in the monthly Performance & Resources Board, which offers scrutiny of the Authority's management of its investments. The responsibilities of the S.151 Officer and extended Finance Team are set out in the Authority's Constitution, which is available on the PFCC's website [here](#).

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Commissioner, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2023

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 for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

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

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak, and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023): Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Table 6: Interest Rate Forecast:

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/03/2023 Actual Portfolio £m	31/03/2023 Year End Rate %
External borrowing:		
Public Works Loan Board	23.5	4.7
Total external borrowing	23.5	4.7
Treasury investments		
Money Market Funds	3.0	3.84
UK Government Investments	8.0	4.05
Total treasury investments	11.0	
Net debt	12.5	

Appendix C – Balance sheet analysis as at 31st March 2023

(Based on unaudited financial statements)

Balance Sheet Analysis	Balance	Capital	Usable	Working	Investments	External	Balance
31st March 2023	31/03/2023	Financing	Reserves	Capital	and Cash	Borrowing	31/03/2023
Property, Plant & Equipment							
Land and buildings	129,586	129,586	-	-	-	-	-
Vehicles, plant and equipment	10,602	10,602	-	-	-	-	-
Assets under construction	1,599	1,599	-	-	-	-	-
Pension Asset - LGPS	9,887	-	-	9,887	-	-	-
Long Term Assets	151,674	141,787	-	9,887	-	-	-
Inventories	445	-	-	445	-	-	-
Short term debtors	13,068	-	-	13,068	-	-	-
Cash and cash equivalents	18,602	-	-	2,500	16,102	-	-
Assets held for sale	350	350	-	-	-	-	-
Current Assets	32,465	350	-	16,013	16,102	-	-
Short term borrowing	(249)	-	-	(249)	-	-	-
Short term creditors	(11,447)	-	-	(11,447)	-	-	-
Grant receipts in advance	(1,303)	-	-	(1,303)	-	-	-
Current Liabilities	(12,999)	-	-	(12,999)	-	-	-
Long term borrowing	(23,500)	-	-	-	-	(23,500)	-
Provisions	(786)	-	-	(786)	-	-	-
Other long term liabilities	(580,729)	-	-	(580,729)	-	-	-
Long Term Liabilities	(605,015)	-	-	(581,515)	-	(23,500)	-
Net Liabilities	(433,875)	142,137	-	(568,614)	16,102	(23,500)	-
General reserves	3,882	-	3,882	-	-	-	-
Earmarked general reserves	7,102	-	7,102	-	-	-	-
Usable capital receipts reserve	15,741	-	15,741	-	-	-	-
Usable Reserves	26,725	-	26,725	-	-	-	-
Revaluation reserve	43,840	43,840	-	-	-	-	-
Capital adjustment account	66,198	66,198	-	-	-	-	-
Holiday pay account	(1,353)	-	-	(1,353)	-	-	-
Collection fund adjustment account	1,557	-	-	1,557	-	-	-
Pension reserve	(570,842)	-	-	(570,842)	-	-	-
Unusable Reserves	(460,600)	110,038	-	(570,638)	-	-	-
Total Reserves	(433,875)	110,038	26,725	(570,638)	-	-	-
Analysis Total	-	32,103	(26,729)	2,024	16,102	(23,500)	-

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Chief Financial Officer (S151)
Contact Officer:	Neil Cross Essex County Fire and Rescue Service, Kelvedon Park, London Road, Rivenhall, Witham CM8 3HB Tel: 01376 576100