Item 22/07 Appendix A

DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY

Treasury Management Policy Statement and Practices (incorporating Annual Treasury Management Strategy) 2022-23

February 2022

CONTENTS

1 INTRODUCTION

1.1 Background

The Authority must formally adopt a Treasury Management Policy Statement, which complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice ("the Code").

The purpose of this document is to describe those practices that cover the whole range of treasury management activities. By approving this paper, the Authority will adopt the key recommendations of the Code.

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.

- Investment management practices (IMPs) for investments that are not for treasury management purposes.

1.2 Treasury Management Reporting

The Authority will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs and IMPs.

The Annual Treasury Management Strategy required by the Code will also incorporate the requirements of the "Statutory Guidance on Local Government Investments" issued by the Ministry of Housing, Communities and Local Government in 2018.

The Annual Treasury Management Strategy will be produced as Appendix A to this document, and updated and varied from time to time, as appropriate.

1.3 Delegated Responsibility

The Authority has delegated responsibility for the implementation and monitoring of its treasury management policies and practices and for the execution and administration of treasury management decisions to the Treasurer who will act in accordance with the Authority's policy statement and TMPs and IMPs.

2 TREASURY MANAGEMENT POLICY STATEMENT

The Authority defines its treasury management activities as:

The management of the Authority's borrowing, investments and cash flows, its banking, money market transactions 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 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 those 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 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 Introduction

The Code recommends that an authority adopts a number of Treasury Management Practices (TMPs) to reflect its treasury management powers and the scope of its treasury management activities. The TMPs relevant to the Authority are set out in the rest of this section, together with a description of the current arrangements which underpin the Practices.

3.2 TMP1 - Risk Management

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

The Treasurer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect. This will be done in accordance with the procedures set out in TMP6 - *Reporting Requirements and Management Information Arrangements.*

For each of the following risks, the current arrangements and key points of reference that seek to ensure compliance with these objectives are set out.

3.2.1 Credit and Counterparty Risk Management

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the Authority, particularly as a result of the counterparty's diminished credit-worthiness and the resulting detrimental effect on the Authority's capital or revenue resources.

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 - *Approved Instruments, Methods and Techniques*.

The lending list of approved counterparties for investments is compiled using advice from the Authority's Treasury advisors, based on credit ratings. The criteria for inclusion are set out in TMP 4 – *Approved Instruments, Methods and Techniques*. It is kept under constant review by the Treasurer, who may vary it as circumstances change, subject to reporting changes in accordance with TMP 6 – *Reporting Requirements and Management Information Arrangements*. The institutions on the list are split into different ranges of maximum investment, in accordance with their credit ratings.

The Authority also recognises the need to have a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. The relevant institutions are set out in TMP4 – *Approved Instruments, Methods and Techniques*.

3.2.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that business and service objectives will be compromised as a result.

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

The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance debt maturities.

The Treasurer will compile a schedule of known payments and receipts for 2022-23, together with a cash flow forecast to be kept up to date through the year. Action will be taken to invest or recall funds in liquid investments according to the predicted daily surplus or shortfall of bank balances, keeping the minimum possible amount in non-interest bearing current accounts. The authority does not have an authorised overdraft arrangement, and the Treasurer will ensure that the accounts do not go overdrawn, as this would attract unbudgeted interest costs.

3.2.3 Interest Rate Risk Management

This is the risk that fluctuations in the levels of interest rates create an unexpected and/or unbudgeted burden on the Authority's finances.

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

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

3.2.4 Exchange Rate Risk Management

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

3.2.5 Inflation Risk Management

The Authority will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

3.2.6 Refinancing Risk Management

This is the risk that maturing borrowings and other financing cannot be refinanced on terms that reflect the provisions the Authority has made for refinancing, and/or that the terms are inconsistent with prevailing market conditions.

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

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

When borrowing, care will be taken to avoid large concentrations of debt that would need to be replaced at the same time. The maturity schedule of debt is reported annually in the Statement of Accounts.

The flow of funds related to capital expenditure will be planned in the three-year Capital programme, with the Capital Strategy providing a longer-term view. The Prudential Code requires the Authority to consider the affordability of these plans, including the availability of current and future resources beyond the three-year period.

3.2.6 Legal and Regulatory Risk

This is the risk that the Authority or an organisation with which it is dealing in its treasury management activities will fail to act in accordance with its legal powers or regulatory requirements, and that losses result.

The Authority will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] - C*redit and Counterparty Risk Management,* it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Authority, particularly with regard to duty of care and fees charged.

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

3.2.7 Operational Risk, Including Fraud, Error and Corruption

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

Records will be maintained of all treasury management activities to ensure that there is a full audit trail.

The Authority has insurance policies which include covering the loss of cash by fraud or dishonesty of employees.

3.2.8 Price Risk Management

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. Exposure to instruments whose principal value may fluctuate is controlled by criteria and limits set in the Annual Treasury Management Strategy.

3.3 TMP2 - Performance Measurement

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

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the Authority's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

The performance of the treasury management function will be measured by comparing the average daily interest receivable on investments with the average Local Authority 7-Day Rate. Performance is monitored on a quarterly basis in a report to the Treasurer from the Chief Accountant, and at intervals according to the arrangements specified in TMP 6 – *Reporting Requirements and Management Information Arrangements.*

Ad hoc reports are also obtained from the Authority's professional treasury management advisers (Link Group).

3.4 <u>TMP3 - Decision Making and Analysis</u>

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

A cashflow forecast is completed daily, taking bank balance figures from HSBCnet and any known payments and receipts for each day. Electronic copies of bank balances and the daily cashflow forecast are retained as a permanent record.

Generally, a small balance is maintained in the current account to cover unexpected payments, such as advances on payroll, which may arise at any time. This avoids the need to make minor recalls of investment sums. In a climate of low interest rates, the loss of interest is negligible compared with the potential costs of going overdrawn. An interest-earning bank deposit account is also available for sums of this nature. It must be borne in mind that to invest even reasonably large sums for short periods could cost the Authority more in Clearing House Automated Payment Scheme (CHAPS) fees than it would receive in investment interest.

In all treasury management decisions, the Treasurer will be clear about the nature and extent of associated risks, the legality of transactions, the adequacy of documentation, the credit-worthiness of third parties and market conditions.

3.5 <u>TMP4 - Approved Instruments, Methods and Techniques</u>

The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in this document, and within the limits and parameters defined in TMP1 - *Risk Management.* Further details will be set out each year in the Annual Treasury Management Strategy.

A financial instrument is any contract which gives rise to a financial asset in an entity and a financial liability or equity instrument of another, in the context of treasury management referred to as investments and borrowings.

The Authority can use a large variety of financial instruments for its investments and borrowings, which allow it to actively manage its interest rate exposures and to reduce interest costs. The Authority, at this current time intends not to use instruments, methods and techniques such as Gilts, Treasury Deposits or Derivatives (Swaps, Forwards, Options), as the level of cash available for investment or the risks associated does not warrant such use. The instruments, methods and techniques adopted should such cash investment opportunities become available would be under the advice of external advisers (see TMP11 – The Use of External Providers).

Internally Managed Funds:

Specified & Non Specified Investments

The Authority may use the following types of investment for internally managed investments:

- Fixed Term Deposits
- On Call Deposits
- Money Market Funds

Definition of Approved Organisations for Investment

The Authority may lend funds to the following organisations:

- Other Local Authorities;
- Major clearing banks incorporated in the UK and their subsidiaries;
- UK Building Societies;
- British Merchant Banks and Securities House Association members;
- Secondary banking sector
- Foreign Banks with an F1 Rating

With the exception of Other Local Authorities, the Authority may invest with these bodies to the extent that they have “high” credit ratings[1], which have been defined by the Authority in the following section.

Internal Investment Policy

The following limits apply on the amount of money that can be invested with any one of the institutions mentioned above at any one time, by the internal team:

[1] Draft “Guidance on Local Government Investments”

Highest quality financial institutions (UK/Overseas)	£5m
Group limits (institutions under common ownership, e.g. Lloyds/Bank of Scotland)	£8m (Group)
Other local authorities	£3m
100% Owned subsidiaries of clearing banks	£3m
Money market funds	£3m
Other F1/A rated banks/building societies	£1.5m

The Authority uses the creditworthiness service provided by Link Group to inform its counterparty list. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies (Fitch, Moody's, Standard & Poor's), supplemented with a wider array of market information. By using a risk weighted scoring system, this methodology does not give undue importance to a single agency's ratings. Typically, the minimum credit ratings criteria will be a short-term rating of F1 (Fitch) and a long-term rating of A. All ratings will be monitored quarterly, but the Link Group's creditworthiness service will alert the team to changes which affect the current list of counterparties whenever they occur.

Authority is delegated to the Treasurer to vary the list and limits applying as circumstances dictate. Such variations will be reported to the Authority at the earliest opportunity. In addition to use of the external service, the Authority will carry out counterparty risk assessment through media review, market data and information, and any information on external support for banks to help support its decision-making process.

Money Market Funds and MiFID II

Use of Money Market Funds will be limited to CNAV (Constant Net Asset Value), LVNAV (Low Volatility Net Asset Value) and VNAV (Variable Net Asset Value) Money Market Funds. Some Funds may require the Authority to opt up to professional status under MiFID II.

MiFID (Markets in Financial Instruments Directive) is a legislative framework set up by the European Union to regulate financial markets and improve protection for investors. It first came into effect in 2007 and was reissued (MiFID II) with effect from 3 January 2018.

UK public sector bodies are defaulted to “retail” status. Dealing with some counterparties may require opting up to “professional” status, which confirms that the Authority has the appropriate level of knowledge and experience and that decision-making processes are in place in order to use regulated investment products. Opting up is part of the account opening process for each relevant Money Market Fund.

MiFID II does not cover term deposits.

Borrowing

The uncertainty over future interest rates increases the risks associated with treasury management activity. Due to this uncertainty the Authority will take a cautious approach to its treasury management strategy.

Long term fixed interest rates are at risk of being higher over the medium term. The Treasurer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. It is likely that short term fixed rates may provide better opportunities. This may include borrowing in advance of anticipated future requirements.

The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risks and hedge against expected falls in investment rates.

The Authority's policy is to raise finance from any of the following:

- Public Works Loan Board
- Financial Institutions (such as banks, insurance companies and pension funds)
- Local Authorities
- Municipal Bond Agency
- Overdraft
- Internal Capital Receipts and Balances
- Leasing

3.6 TMP5 - Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

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

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

If the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles the Treasurer will ensure that the reasons are properly reported in accordance with TMP6 - *Reporting Requirements and Management Information Arrangements,* and the implications properly considered and evaluated.

The Treasurer will ensure that there are clear written statements of the responsibilities of each post engaged in treasury management, and the arrangements for absence cover. The Treasurer will also ensure that at all times those engaged in treasury management follow the policies and procedures set out and maintain proper documentation for all deals and transactions.

The responsibilities for the treasury management function are allocated below (3.6.1 to 3.6.5). All such responsibilities will be fulfilled in accordance with the Authority's policy statement and TMPs and CIPFA's *Code of Practice on Treasury Management in the Public Services*. CIPFA members with treasury management responsibilities will also comply with CIPFA's "*Standard of Professional Practice on Treasury Management".*

3.6.1 The Authority

- Approval of the initial Treasury Management Policy Statement & Practices
- Determination of the annual borrowing limit, the annual temporary borrowing limit, and the maximum level of borrowing on which variable interest is payable
- Approval of amendments to and reviews of the Authority's adopted clauses, Treasury Management Policy Statement and Practices
- Budget consideration and approval
- Approval of the Annual Treasury Management Strategy
- Annual review of treasury management activity

3.6.2 Treasurer

- Variations to approved investment institutions and associated lending limits
- Approval of investments in foreign/overseas banks
- Approval of leasing transactions and other credit arrangements
- Approval of all longer-term borrowing and lending transactions (over 364 days)
- Obtaining confirmation of the legality of proposed actions and instruments to be obtained
- Report to elected members and advise the Monitoring Officer when appropriate
- Review and amendment of the Treasury Management Policy Statement & Practices and Annual Treasury Management Strategy
- Organisation of the treasury management function
- Approval of the use of all new brokers
- Monitoring and implementation of the treasury management policy and strategy reports to the Authority on future treasury management strategies and performance reviews
- Review of the performance of the treasury management function
- Regular review of the treasury management systems documentation
- Ensure compliance with policies, limitations and directions
- Manage the overall treasury management function
- Ensure appropriate division of duties

3.6.3 Chief Accountant

- Execution of transactions
- Adherence to agreed policies and practices on a day-to-day basis
- Maintaining relationships with third parties and external service providers
- Supervising treasury management staff
- Monitoring performance on a day to day basis
- Submitting management information reports to the Treasurer
- Identifying and recommending opportunities for improved practices
- Producing regular performance reports to the Treasurer
- Monitoring the performance of brokers and recommending new ones as appropriate
- Preparing and implementing the treasury management systems documentation

3.6.4 Finance Team

- Carry out the daily cashflow forecast and arrange any investment or recalling of funds as necessary
- Perform monthly reconciliations of treasury management records with the information recorded on the General Ledger
- Assist the Chief Accountant with other general treasury management duties
- Obtain and record regular reports of interest rates

3.6.5 Internal Audit

- Review compliance with approved policies and procedures
- Review division of duties and operational practice
- Undertake probity audit of the treasury management function

3.7 <u>TMP6 - Reporting Requirements and Management Information Arrangements</u>

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

As a minimum, the Authority will receive:

- ♦ An annual report on the strategy and plan to be pursued in the coming year;
- ♦ A mid-year review;
- ♦ An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on the circumstances of any non-compliance with the Authority's treasury management policy statement and TMPs.

As reports to the Authority, these papers will be available for public inspection on the Authority's website.

The Finance and Audit Committee will receive periodic monitoring reports on treasury management activities and risks. The Committee will also have responsibility for the scrutiny of treasury management policies and practices.

The Annual Treasury Management Strategy is attached as an appendix to this document. It incorporates the Annual Investment Strategy and includes treasury management prudential indicators.

In addition, the Treasurer will report to the Authority and, if necessary, to the Clerk and Monitoring Officer, any irregularities or unusual treasury management activity, and changes made to the Strategy or other items of policy brought about by exceptional circumstances.

The Chief Accountant will prepare quarterly monitoring statements for the Treasurer summarising loans and investments transactions, interest rate movements, other treasury management activities in general and any unusual items or concerns.

3.8 TMP7 - Budgeting, Accounting and Audit Arrangements

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

As part of the annual Revenue Budget setting process, the Authority approves budgets for interest payable and receivable, bank charges and similar costs, including fees charged by external advisers on treasury management.

The accounting system records all transactions relevant to these budgets, and those for the principal sums of financial instruments.

The Treasurer will exercise effective controls over the treasury management budget and will report upon any changes or variances in accordance with TMP6 - *Reporting Requirements and Management Information Arrangements.*

The Authority's Internal Audit Strategy and Plan will include an audit of treasury management activity as part of the audit of key financial controls. External audit may place reliance on the findings of internal audit in formulating their audit opinion.

3.9 TMP8 - Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the Treasurer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with

TMP1[2] *Liquidity Risk Management, and for the purposes of identifying future borrowing needs (using a liability benchmark where appropriate).*
The Authority has access to records of its bank transactions through internet access to the bank's system (HSBCnet). All amounts are checked to source records. A formal bank reconciliation for all accounts is conducted monthly by an Accounts Technician and checked by the Chief Accountant.

3.10 TMP9 - Money Laundering

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

Loans and investments will only be made with institutions on the approved lists in accordance with this policy. The bank details of new counterparties will be checked independently before any payment is made.

3.11 TMP10 - Training and Qualifications

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

Staff who are currently involved in the treasury management function have the following relevant qualifications:

Position	Name	Qualifications
Treasurer	Ian Cotter	FCCA, MAAT
Chief Accountant	Samantha Harris	CPFA
Accountancy Team	Charlotte Windebank Amanda Ali Carolina Ares Arenas	CIMA (part), AAT ACCA (part), MAAT BA (Equivalent – Venezuela), ACCA (part)
Finance System Accountant	Graham Howard	BA, CIMA (part)

Members of staff who are CIPFA-qualified must comply with the Statement of Professional Practice in relation to treasury management activities.

Relevant training will be provided to Members of the Authority. Those charged with governance also recognise their individual responsibility to ensure that they have the appropriate skills and training to complete their role effectively.

3.12 TMP11 - Use of External Service Providers

The Authority recognises the responsibility for treasury management decisions remains with the Authority at all times. It recognises the potential value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review. And it will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender and re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the Treasurer.

The Authority has appointed Link Group to act as advisers in all aspects of treasury management activities, including the selection of counterparties on its approved lending list. Responsibility for treasury management decisions remains with the Authority. All decisions will be taken with regards to all available information, including advice from Link Group, but not relying solely on that source.

The Authority also uses brokers who must demonstrate adherence to the standards set by the Financial Conducts Authority (FCA). The policy is to use more than one broker to promote competitiveness and allow comparisons of service provided, and to avoid any accusations of favouritism.

The Authority will not only deal through Brokers. In some circumstances the Authority will deal with organisations directly with the expectation that better rates will be achieved by dealing in this way.

The Authority does not currently have a policy on the use of Fund Managers. Should the volume and complexity of investment increase substantially, the Authority will take advice from its appointed advisers and devise a policy accordingly.

3.13 TMP12 - Corporate Governance

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

This Authority has adopted and implemented the key principles of the Code. This, together with the other arrangements detailed in this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

3.14 TMP13 – Investment Management Practices for Investments that are not part of Treasury Activities

The Authority recognises that investments taken for non-treasury management purposes require careful investment management. Such investments include loans supporting service outcomes, investments in subsidiaries, or investment property portfolios.

The Authority does not currently invest in these areas. Should it decide to do so in the future, the annual treasury management strategy will set out, where relevant, Investment Management Practices (IMPs), consisting of specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

APPENDIX 1

Dorset & Wiltshire Fire and Rescue Authority
Annual Treasury Management Strategy 2022-23

1. INTRODUCTION

When deciding its treasury management policies and strategies, the Authority will prioritise the security, liquidity and yield of the investments, in that order of importance. The general policy objective is that the Authority should prudently invest any temporarily surplus funds. The strategy laid down in this document has been prepared in accordance with these priorities and objectives.

The strategy has been prepared with due regard to:

- The Local Government Act 2003, and regulations and statutory guidance issued under the Act;
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes; and,
- CIPFA Prudential Code for Capital Finance in Local Authorities

The strategy is consistent with, and should be read in conjunction with, TMP 4 - Approved Instruments, Methods and Techniques. This outlines the types of investment and organisations that may be used and sets out the Authority's definition of "*high credit rating".*

The strategy provides details on the expected activity of the treasury management function in the financial year 2022-23. The production and submission of the strategy is a requirement of the Authority's Treasury Management Policy Statement.

The strategy covers:

- Investments
- Borrowing
- Prospects for interest rates

2. INVESTMENT STRATEGY

2.1 Specified Investments

Specified Investments are those investments made either with the UK Government or other UK local authority, or with a body that has been awarded a high credit rating. In addition, the investment must have a period to maturity of no longer than 1 year and must be denominated in sterling. Specified investments exclude the acquisition of share capital or loan capital in a body corporate (e.g. Corporate Bonds).

Those funds managed and invested internally by the Authority may only be invested in Specified Investments and in line with the requirements of TMP 4 - Approved Investments, Methods and Techniques.

The Authority may use the following categories of investment (where the maturity is for no longer than 1 year):

- Fixed Term Deposits
- On Call Deposits
- Money Market Funds

These investments may be made with the following organisations:

- Other UK Local Authorities
- Major Clearing banks incorporated in the UK and their subsidiaries
- UK Building Societies
- British Merchant Banks and Securities House Association Members
- The Secondary Banking Sector
- Foreign Banks

TMP 4 - Approved Investments, Methods and Techniques provides details of the credit ratings that each of these organisations must have in order for the Authority to invest with them.

The Authority may also use the UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity) under advice from externally appointed specialists.

2.2. Non-Specified Investments

Non-specified investments are those investments which do not meet the criteria for specified investments. In particular, this would include investments with a maturity of more than one year.

In deciding which categories of non-specified investments the Authority may prudently use, the following procedures should be used:-

a) Seek the advice of an external adviser/specialists.
b) Evaluate the category of investment with regard to the Authority's policy of maximising the security and liquidity of its investments.
c) Make recommendations based on the information obtained from the external adviser/specialist, to Members, agree that the category of investment may be added to the list of non-specified investments that may be used by the Authority.
d) Limit total long term investments to £4m of the total investment portfolio with regard to forecasts of future cash flow.

2.3 Liquidity of Investments

The Authority acknowledges the importance of the liquidity of its investments when determining its investment strategy. Taking account of the cash flow requirements of the Authority and considering the security and negotiability of each category of investments, the following guideline has been agreed:

- All internally managed funds are to be invested in specified investments that have a period to maturity of no more than 1 year.

2.4 Internally Managed Investments – Cash Flow Management

The Authority's Internal Investment Strategy for the forthcoming twelve months is as follows:

- To invest surplus funds, in specified investments, to achieve maximum security and liquidity and minimum risk.
- To invest surplus funds to achieve maximum returns, whilst fulfilling short-term cash flow requirements.

3. BORROWING STRATEGY

3.1 Short Term Borrowing Strategy

The Authority's strategy for the forthcoming twelve months will be as follows:

- The Authority will only borrow short-term (up to twelve months) for the purpose of maintaining sufficient cash flow.

3.2 Long Term Borrowing Strategy

Long-term borrowing costs have been higher than the investment income rates over the past few years and are forecast to be so for the next few years.

Officers have therefore given due consideration to a strategy of avoiding external borrowing and using internal borrowing where surplus funds are made available. This strategy has eased pressure on the revenue budget and reduced exposure to credit risk. However, given the relatively high level of internal borrowing, attention turned in 2019-20 to adjusting the balance between internal and external borrowing, whilst maintaining adequate cash resources and minimising the costs of carry, i.e. the difference between the rate of interest earned on investments and the cost of borrowing. The Treasurer will continue to monitor borrowing costs and interest rates in 2022-23 and adopt a pragmatic approach to changing circumstances when making borrowing and investment decisions.

The Authority's strategy for the forthcoming twelve months will be:

- To carry out long-term prudential borrowing for the purposes of financing capital expenditure, as approved by the Authority.
- To seek to adjust the balance between external and internal borrowing, where possible.

The limit set on the total amount of outstanding borrowing at any time in 2022-23 will be an Operational Boundary of £31.339m and an Authorised Limit of £33.839m.

The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

4. PROSPECTS FOR INTEREST RATES

Based on current known base rate plus information from other sources, an estimate of the base rate and trend over the year and beyond, is as follows:

	Base Rate %
March 2022	0.25%
March 2023	0.75%
March 2024	1.00%
March 2025	1.25%

These forecasts are taken from the Link Group's "Updated Interest Rate Forecast", dated 21 December 2021.