Mae'r ddogfen hon ar gael yn Gymraeg

AWDURDOD TÂN AC ACHUB GOGLEDD CYMRU

NORTH WALES FIRE AND RESCUE AUTHORITY

A meeting of the **AUDIT COMMITTEE** will be held
MONDAY 18 MARCH 2024 at **09.30 hrs** virtually **via Zoom**.

Please note, this meeting will be preceded by a cyber training session at 09:00 hrs, to be delivered by the MIAA.

Yours faithfully,
Gareth Owens
Clerk

AGENDA

1. **Apologies**

2. **Declarations of Interest**

3. **Notice of Urgent Matters**
Notice of items which, in the opinion of the Chairman, should be considered at the meeting as a matter of urgency pursuant to Section 100B (4) of the Local Government Act, 1972.

4. **Minutes of the Meeting held on 18 December 2023**

5. **Matters Arising**

6. **Financial Reserves Strategy**

7. **Treasury, Management and Capital Overview Presentation by Arlingclose**

8. **Treasury Management Report Q3 2023/24**

9. **Treasury Management Practices (TMPs)**

10. **Treasury Management Strategy (TMS) 2024/25**

11. **Capital Strategy 2024/34**

12. **Internal Audit Plan 2023/24 Update Report**
    - **i) Key Financial Processing Controls 2023/24**
    - **ii) National Fraud Initiative 2022/23**
    - **iii) Risk Management Core Controls 2023/24**

13. **Internal Audit Plan 2024/25**

14. **Audit Wales Annual Audit Summary**

15. **Urgent Matters**
To consider any items which the Chair has decided are urgent (pursuant to Section 100B (4) of the Local Government Act, 1972) and of which substance has been declared under item 3 above.

Cont…

PART II

It is recommended pursuant to Section 100A (4) of the Local Government Act, 1972 that the Press and Public be excluded from the meeting during consideration of the following item(s) of business because it is likely that there would be disclosed to them exempt information as defined in Paragraph(s) 12 to 18 of Part 4 of Schedule 12A of the Local Government Act 1972.

16. None

NORTH WALES FIRE AND RESCUE AUTHORITY
AUDIT COMMITTEE

Minutes of the **Audit Committee** of the North Wales Fire and Rescue Authority held on Monday 18 December 2023 virtually via Zoom. Meeting commenced at 09.30hrs.

Councillor	Representing
Mark Young (Chair)	Denbighshire County Council
Gwynfor Owen (Deputy Chair)	Gwynedd Council
Bryan Apsley	Wrexham County Borough Council
Cllr Marion Bateman	Flintshire County Council
Tina Claydon	Flintshire County Council
Adele Davies-Cooke	Flintshire County Council
Sharon Doleman	Conwy County Borough Council
Jeff Evans	Anglesey County Council
John Brynmor Hughes	Gwynedd Council
Gareth R Jones	Conwy County Borough Council
Marc Jones	Wrexham County Borough Council
Beverley Parry-Jones	Wrexham County Borough Council
Arwyn Herald Roberts	Gwynedd Council
Austin Roberts	Conwy County Borough Council

Also present:

Helen MacArthur	Assistant Chief Fire Officer
Dafydd Edwards	Treasurer
Matt Brushett	Audit Wales
Philippa Dixon	Audit Wales
Anne-Marie Harrop	Mersey Internal Audit Agency
Angharad Ellis	Mersey Internal Audit Agency
George Jones	Atebol - Translator
Lisa Allington	Executive Assistant – Note Taker

1 **APOLOGIES**

Councillor	Representing
Michelle Blakeley-Walker	Denbighshire County Council

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest to record.

3 NOTICE OF URGENT MATTERS

3.1 There was no notice of urgent matters.

4 MINUTES OF THE MEETING HELD ON 18 SEPTEMBER 2023

4.1 The minutes of the meeting held on 18 September 2023 were submitted for approval.

4.2 **RESOLVED to:**

i) approve the minutes as a true and accurate record of the meetings held.

5 MATTERS ARISING

5.1 There were no matters arising.

6 BUDGET SCRUTINY UPDATE

6.1 ACFO MacArthur presented the Budget Scrutiny Update paper which aimed to provide Members of the Audit Committee (the Committee) with an update on the work of the Budget Scrutiny Working Group (the Group) and to seek endorsement of the current financial planning assessment to set a balanced budget for 2024/25.

6.2 The Chair noted that the Budget Scrutiny Working Group meetings had been professional and productive meetings and Officers had been challenged throughout the process. Through the work of the Group, the levy had been reduced from 15% to 10.8% which also addressed the deficit from the previous year.

6.3 The Treasurer gave thanks to members of the Group for their hard work over the last few months and noted that it had been of great benefit in the budget setting process. He further noted that there had been a request by some Members to attempt to bring the levy below 10% in deference to the difficult financial situation that the Local Authorities find themselves in currently.

6.4 ACFO MacArthur advised that there remained some risks relating to the budget which included outstanding national pay negotiations, clarity on pension costs following the valuation and uncertainties around inflation and interest rates. ACFO MacArthur noted that as much work as possible had been carried out in ensuring that the budget had been reduced as far as possible following challenges from the Group.

6.5 A Member advised that their own constituent council had indicated that they would only be happy to accept a single percentage figure levy and anything above that would be rejected. The Chair responded that whilst this was something that would obviously be preferred, a commitment to that could not be given; however, all work possible was being carried out in order to identify options for further reductions ot the utilisation of reserves.

6.6 A Member asked if a common statement of explanation could be provided to Members by Officers for them each to present to their constituent councils in order to explain the how the levy had been reached. The Chair responded that this was an area that Officers were currently working on and would be produced following approval of the final budget by the Authority at its meeting in January.

6.7 Another Member noted that they felt it would be irresponsible to aim for a lower figure just so that it would come in under 10%, and that the needs and requirements of the Service to enable it to operate effectively should come first. It could also mean that any amounts cut from this year's budget may have to be deferred to the following year, which would still have a detrimental financial impact on local authorities.

6.8 A Member noted that there was reference to lease costs within the report and asked whether there were plans in place to look at these more closely. ACFO MacArthur responded that the vast majority of lease costs related to vehicles which were a necessity as part of the operational model. However, a cost benefit analysis was carried out each time a new vehicle was required to establish if the vehicle was a necessity, and whether it would be more cost effective to lease or buy.

6.9 It was noted that the lease costs also included three buildings, with the largest lease cost relating to the Joint Control Centre (JCC). This was a vital resource as it allowed for collaborative working in the Control Room with the North Wales Police (NWP). This collaborative working had been the result of a decision made by the Authority some time ago and it was strongly recommended that it remain in place. Therefore any future proposal would require a detailed analysis and approval by the Authority.

6.10 ACFO MacArthur confirmed that all leased assets, including the JCC, would be reassessed as they reached their break clause in order to establish viability.

6.11 **RESOLVED to:**

i) **Note and endorse the findings of the Budget Scrutiny Working Group; including**
ii) **the planning assumptions being used to develop the revenue budget for 2024/25;**
iii) **the current financial planning assessment of a budget requirement of £49.194m for 2024/25;**
iv) **the proposal to undertake further work to identify opportunities for the further reductions in expenditure for the 2024/25 financial year and/or utilisation of reserves; and**
v) **the proposed work programme for 2024/25 onwards.**

7. TREASURY MANAGEMENT UPDATE

7.1 ACFO MacArthur presented the Treasury Management Update paper which provided Members of the Authority with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1 April 2023 – 30 September 2023.

7.2 It was asked how the provision of loans was managed and from where investments were sought when they were required. ACFO MacArthur responded that loans were primarily sourced from the Public Loans Works Board (PWLB) although some local authorities were also used for short term loans. It was noted that cash holdings were held in deposit accounts with the Authority's bankers and also the UK Government's Debt Management Account Deposit Facility (DMADF).

7.3 **RESOLVED to:**

i) **note the treasury management activities and prudential indicators for the period 1 April – 30 September 2023.**

8 INTERNAL AUDIT PROGRESS REPORT

8.1 The Internal Audit Progress Report paper was presented to Members by Angharad Ellis from the MIAA, the purpose of which was to outline an update of the work undertaken by them as the Authority's internal audit providers.

8.2 ACFO MacArthur thanked the MIAA for their work to date and noted that they had been looking at a number of fundamental key areas for the Service which had been of great benefit.

8.3 **RESOLVED to:**

i) **Note the work undertaken by MIAA to 30 November 2023 and note the reviews planned for the remainder of the financial year.**

9 PAYROLL AND ATTENDANCE MANAGEMENT REVIEW

9.1 Angharad Ellis, MIAA, outlined the Payroll and Attendance Management Review paper, the purpose of which was to present to Members the findings of the internal audit review of the payroll and attendance management arrangements and controls.

9.2 It was noted that a number of recommendations had been made by MIAA with regards to the Service's payroll and attendance systems, and that a follow up would be carried out next year in order to ensure that these recommendations had been carried out. Feedback would be provided to the Committee at that point.

9.3 ACFO MacArthur noted that Finance, Payroll and HR worked very hard in this area and it was pleasing to see that reflected in the report.

9.4 **RESOLVED to:**

i) **Note the findings of the internal audit review of the payroll and attendance management arrangements.**

10 CERTIFICATION ON COMPLIANCE WITH LOCAL GOVERNMENT MESURE (LGM) 2009 PERFORMANCE ASSESSMENT REQUIREMENTS

10.1 ACFO MacArthur presented the Certification on Compliance with LGM 2009 Performance Assessment Requirements paper which confirmed to Members the outcome of the external audit of the Authority's 2023/24 improvement measures, as required by the Local Government (Wales) Measure 2009.

10.2 **RESOLVED to:**

i) **Note the audit letter which confirms that the Authority has discharged its responsibilities under the Local Government (Wales) Measure 2009.**

11 URGENT MATTERS

11.1 There were no urgent matters to discuss.

Meeting closed 10.32 hrs

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 6**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Dafydd Edwards - Treasurer**
Contact Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Subject	**Financial Reserves Strategy**

PURPOSE OF REPORT

1. The purpose of this report is to present an updated version of the Financial Reserves Strategy (the Strategy) to Members of the North Wales Fire and Rescue Authority (the Authority).

EXECUTIVE SUMMARY

2. The Financial Reserves Strategy was last presented to the Authority in January 2021, and in line with good practice has been subject to review.

3. The Strategy has been updated to reflect current practices and procedures.

RECOMMENDATION

4. That Members recommend to the Authority:

   i) Approval of the Financial Reserves Strategy at Appendix 1, as a basis for managing the Authority's usable reserves.

BACKGROUND

5. The Authority differs from other local authorities, in that it is funded by contributions from the six constituent authorities in North Wales; it is not a precepting or billing authority.

6. The Welsh Government enacted 'The Combined Fire and Rescue Services Schemes (Variation) (Wales) Order 2009' in recognition of the possible burden on council budgets should the Authority require an additional contribution in any year. This provided fire and rescue authorities in Wales with a statutory basis for holding reserves.

7. The use of reserves is a critical component in managing the financial affairs of the Authority and has ensured that in any year the need for revised contributions is reduced (i.e. avoiding a supplementary levy on constituent Councils).

INFORMATION

8. The Financial Reserves Strategy is set out in Appendix 1. It provides details of the reserves held and documents the process for the review and reporting of the reserves.

IMPLICATIONS

Wellbeing Objectives	The holding of reserves enables the Authority to achieve its long-term well-being objectives which are: To support people to prevent accidental dwelling fires and stay safe if they do occur; To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk
Budget	Current usable reserves total £7.821m (31 March 2023)
Legal	The Authority has a legal duty to set a balanced revenue budget. This may include the use of reserves for known commitments.
Staffing	None
Equalities/Human Rights/ Welsh Language	None
Risks	Income and expenditure are closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members. This includes the movements in the reserves.

North Wales Fire & Rescue Authority
Financial Reserves Strategy

This document is uncontrolled when printed. All users are responsible for checking to confirm that this is the current version before use.

Version:	2.0	Next review:31/03/2027	Financial Reserves Strategy
Status:	Draft	Issue date: TBC	

1.0 RESERVES HELD

North Wales Fire and Rescue Authority (the Authority) will maintain reserves in accordance with prevailing legislative and regulatory requirements. Ordinarily, the Authority will seek to avoid using reserves to fund a general deficit in the net revenue budget, as this represents an unsustainable financial position.

The Authority will not maintain funds for contingency purposes other than those reported as reserves.

In addition to a general reserve, the Authority will maintain earmarked reserves for specified purposes, where this is necessary to meet one-off time limited costs associated with specific initiatives or liabilities, or specific grants.

2.0 REPORTING OF RESERVES

The reporting of reserves in the financial statements will meet the prevailing accounting codes of practice applicable to the Authority.

In order to ensure transparency and scrutiny, publicly accessible reports containing further detail will be presented to the Authority when agreeing the Medium Term Resource Strategy, and when reporting the financial outturn for the preceding financial year.

When reporting the financial outturn for the previous year the following information will be provided:

- The purpose of each reserve,
- The basis of assessment of adequacy
- Transfers in and out of reserves

3.0 RESPONSIBILITY AND DELEGATION

The creation, deletion, assessment of adequacy and transfers in/out of reserves will be delegated to the Section 151 Officer (Authority Treasurer), in consultation with the ACFO Finance and Resources and with the Head of Finance.

The adequacy of the Authority's reserves will be assessed at least annually, as part of the accounts closedown process.

The Section 151 Officer will report to the Authority in accordance with this Strategy.

4.0 ROLE OF THE SECTION 151 OFFICER

Welsh Government Ministers have no role or powers to determine or advise on the appropriate level of reserves for individual local authorities (including Fire and Rescue Authorities).

This is a matter for determination at an organisational level, where consideration must be given to the particular risks, circumstances and plans which prevail at any time.

Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer (Authority Treasurer) to advise the Authority regarding the level of reserves that should be held, and to ensure that there are clear protocols for their establishment and use.

5.0 USABLE RESERVES

The Authority generally holds Usable Reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;

- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves; or

- A means of building up funds referred to as earmarked reserves or specific reserves, to meet known or predicted requirements - these are accounted for separately, but remain legally part of the Authority's General Fund.

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations and Service priorities.	Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance.
Insurance reserves.	In the absence of any statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves, where these liabilities do not meet the definition of a 'provision' under the requirements of International Accounting Standard 37 *Provisions, Contingent Assets and Liabilities.*
Reserves for unspent revenue grants and donations.	Where revenue grants or donations have no conditions, or where the conditions are met and expenditure has yet to take place, the sums are held as earmarked reserves.

The Authority may also hold the following useable reserves -

Capital Receipts Reserve

This reserve holds the proceeds from the sale of non-current assets, and can only be used for those purposes specified in "The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended". That is:

- To meet capital expenditure;
- To repay the principal of any amount borrowed; or
- To meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account.

Capital Grants Unapplied Account

This reserve will hold capital resources (from capital grants) that have been recognised as income and not yet applied to capital expenditure.

The Authority may also make provision for expenditure in accordance with the strict definitions contained in accounting codes of practice. These are where specific liabilities exist at the balance sheet date and a reliable estimate of the liability can be made.

A summary of the usable reserves was contained within the Medium Term Resource Strategy (MTRS) approved by the Fire and Rescue Authority at its meeting of 22 January 2024 [MTFS 2009-12 (gov.wales)]

6.0 UNUSABLE RESERVES

Unusable reserves arise out of technical accounting adjustments due to interaction of legislation and proper accounting practice. These may be established to either record revaluation gains, or as adjustment to reconcile accounting and statutory requirements.

These reserves are not resource-backed, and cannot be used for any other purpose. The common unusable reserves are described below:

Revaluation Reserve	This reserve records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated, or when assets are revalued downwards ,or disposed of. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.
Capital Adjustment Account	This reserve reconciles the different rates at which assets are depreciated under proper accounting practice, and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. For example, the credit balance on the Account shows that an Authority has generally financed capital investment in advance of receiving the benefits of that investment. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.
Pensions Reserve	This reserve reconciles the payments made for the year to various statutory pension schemes, in accordance with those schemes' requirements, and the net change in the Authority's recognised liability under International Accounting Standard 19 *Employee Benefits,* for the same period. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount of funding required. For example, a debit balance on the Reserve shows that an authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.

Accumulated Absences Account	This account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account.
Financial Instruments Adjustment Account	This account reconciles the different rates at which gains and losses (such as the premiums on the early repayment of debt) are recognised under proper accounting practice, where required by statute to be met from the General Fund. For example, the debit balance on the Account shows that the Authority has incurred expenses on borrowings that the Government has permitted it to spread over future years.

Other such reserves may be created in the future where developments in accounting result in timing differences between the recognition of income and expenditure, under proper accounting practice and under statute or regulation.

7.0 REPORTING OF RESERVES

The International Financial Reporting Standard (IFRS) based *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) determines the reporting requirements around reserves. The Movement in Reserves Statement presents the movement in the year of the reserves of the authority, analysed into usable and unusable reserves.

The Code recommends that earmarked reserves are reported on the face of the Movement in Reserves Statement. The statutory reporting regime and effective financial management underpin the need for clear, transparent reporting arrangements for reserves, and best practice suggests that for each earmarked reserve held the following information should be reported:

- the reason for the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- review mechanisms.

The budget report to the Authority should include:

- any use of or addition to reserves, including any specific use of reserves to meet recurring costs;
- a statement from the Section 151 Officer on the adequacy of the general reserves and provisions.

8.0 ADEQUACY OF RESERVES

In order to assess the adequacy of reserves when setting the budget, the Section 151 Officer (the Authority Treasurer, in consultation with the ACFO Finance and Resources, and with the Head of Finance) will take account of the strategic, operational and financial risks facing the Authority. The assessment of risks will include external risks, such as matters that may affect business continuity, as well as internal risks, for example, the ability to deliver planned savings.

In financial terms, the following risks will be considered:

Treatment of inflation and interest rates	• The overall financial standing of the authority • Rises in the prices of some commodities and whether reserves are adequate to deal with unexpected price variations. • How changes in interest rates will affect borrowing or income, given the agreed Treasury Management Strategy.
Estimates of the level and timing of capital receipts	• The Authority's track record in budget and financial management, including the robustness of the medium-term plans. • How the property market affects delivery of receipts, both in timing and amount.
Treatment of demand led pressures	• The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.
Treatment of planned efficiency savings/ productivity gains	• The strength of the financial information and reporting arrangements.
Financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	• The authority's virement and end of year procedures in relation to budget under/overspends at authority and department level. • Risk management measures in relation to partnerships, including consideration of risk allocation. • Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.

Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	• Risk assessments are used when balancing the levels of insurance premiums and reserves.
The general financial climate to which the authority is subject to	• External factors, such as future funding changes, the political landscape, and world economic conditions.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 8**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard – Head of finance & Procurement**
Subject	**Treasury Management Report Q3 2023/24**

PURPOSE OF REPORT

1 The purpose of this report is to provide Members with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1 April 2023 – 30 December 2023.

EXECUTIVE SUMMARY

2 In December 2003 the North Wales Fire and Rescue Authority (the Authority) adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2021)* (the CIPFA Code) which requires the Authority (or the Audit Committee with delegated authority) to approve, as a minimum, treasury management semi-annual and annual outturn reports. The CIPFA Code also included a new requirement for quarterly reporting of the treasury management indicators from April 2023. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

3 The Authority's treasury management strategy for 2023/24 was approved at a meeting on 20 March 2023. As the Authority borrows and invests significant sums of money there are financial risks that need to be considered including the potential loss of invested funds (cash deposits) and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

4 During the nine-month period between 1 April and 31 December 2023, the Authority's borrowing and investments remained well within the limits originally set. There were no new defaults by banks in which the Authority deposited money. Furthermore, it is estimated that the Authority's actual investment income will be higher than the expected income in the 2023/24 budget.

RECOMMENDATION

5 It is recommended that Members:

i) note the treasury management activities and prudential indicators for the period 1 April – 31 December 2023.

EXTERNAL CONTEXT

6 UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for bank rates.

7 The Bank of England's Monetary Policy Committee (MPC) held the bank rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25-basis point rate rise. The BoE continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market bank rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

8 Following the December MPC meeting, Arlingclose, the Authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks include economic activity weakening more than expected.

9 Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

LOCAL CONTEXT

10 On 31 March 2023, the Authority had net borrowing of £22.48m arising from capital expenditure.

11 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. Further, the Authority's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.23 Actual £m	31.12.23 Actual £m
General Fund CFR	28.88	32.16
External borrowing	-26.65	-21.62
Internal borrowing	0.00	-8.61
Less: Balance sheet resources	-6.40	-9.68
Less: New Investments	4.17	7.75
New borrowing	**0.00**	**0.00**

12 Table 1 confirms that the Authority's net borrowings were below the Capital Financing Requirement (CFR).

13 The treasury management position at 31 December 2023 and the change over the nine months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	31.12.23 Balance £m	31.12.23 Rate %
Long-term borrowing (PWLB)	17.79	-1.09	16.70	1.00 - 4.90
Short-term borrowing	8.86	-3.94	4.92	1.30 - 3.91
Total borrowing	**26.65**	**-5.03**	**21.62**	
Short-term investments	0.00	-6.40	-6.40	5.19 - 5.38
Cash and cash equivalents	-4.17	2.82	-1.35	4.65 - 5.14
Total investments	**-4.17**	**-3.58**	**-7.75**	
Net borrowing	**22.48**	**-8.61**	**13.87**	

BORROWING

14 CIPFA's 2021 Prudential Code outlines that local authorities (including Fire and Rescue Authorities) must not borrow to invest with the primary objective being financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement requiring new borrowing, unless directly and primarily related to the functions of the Authority.

15 The Authority has not invested in assets for financial return and all expenditure is related to the discharge of the Authority's functions.

BORROWING STRATEGY AND ACTIVITY

16 As outlined in the treasury strategy, the Authority's main objective when borrowing has been to adopt a low risk strategy, balancing low interest costs and achieving cost certainty 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. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

17 There was a substantial rise in the cost of both short and long-term borrowing over the last 18 months. The bank rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of December. The bank rate was 2% higher than September 2022.

18 The Public Works Loan Board (PWLB) borrowing rates fell slightly over the quarter. On 31 December, the PWLB certainty rates for maturity loans were 4.19% for 10-year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

19 At 30 December the Authority held £21.62m of loans, a decrease of £5.03m on 31 March 2023, reflecting the strategy for funding the previous and current years' capital programmes. Outstanding loans, on 30 December are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	31.12.23 Balance £m	31.12.23 Weighted Average Rate %	31.12.23 Weighted Average Maturity (years)
Public Works Loan Board	20.65	-2.03	18.62	2.46	6.48
Local authorities (short-term)	6.00	-3.00	3.00	4.35	1.00
Total borrowing	**26.65**	**-5.03**	**21.62**		

20 The Authority's short-term borrowing cost has continued to increase with the rise in the bank rate and short-dated market rates. The Authority's short-term loans at 30 December 2023 were £3.00m with a rate of 4.35%, this compares with a rate of 1.3% on £6.00m loans as at the end of March 2023.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period Remaining (Years)
PWLB Maturity Loan	2.00	4.80	29
PWLB EIP Loan	0.67	3.09	14
PWLB EIP Loan	4.86	3.91	17
Loans over 5 years	**7.53**		

21 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

22 During the period 1 April – 30 December 2023, a short-term market loan of £3m was repaid. This was replaced with a long term PWLB loan, which was taken out in 2022/23. This was undertaken following advice from Arlingclose, our treasury management advisors, and undertaken when interest rates were favourable.

TREASURY INVESTMENT ACTIVITY

23 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as those that arise from the organisation's cash flows and treasury risk management as activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. In simple terms, the management of cash until it is required for the day to day business, rather than investing cash for the sole purpose of gaining Investment returns.

24 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £4.17m and £10.18m due to timing differences between income and expenditure. The majority of the balance relates to the income received in relation to the Firefighters Pensions Fund, which will be spent throughout the year. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	31.12.23 Balance £m	31.12.23 Income Return %	31.12.23 Weighted Average Maturity days
Banks & building societies	4.17	-2.82	1.35	4.65 - 5.14	on call
Bank of Scotland		3.00	3.00	5.38	
DMADF		3.40	3.40	5.19	
Total investments	**4.17**	**3.58**	**7.75**		

25 Both the CIPFA Code and Government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.

26 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. This includes using the UK Treasury's Debt Management Account Deposit Facility (DMADF, also known as 'the DMO').

27 The bank rate increased by 1%, from 4.25% at the beginning of April 2023, to 5.25% by the end of December 2023. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. DMADF deposits also rose, ranging between 5.17% and 5.29% by the end of December and Money Market Rates between 4.65% and 5.38%.

COMPLIANCE

28 All treasury management activities undertaken during the quarter complied with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy.

29 Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

Institution	Description	Limit	31.12.23 Actual	Complied? Yes/No
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m per bank	£4.35m	yes
Central Government	Debt Management Office (DMO)	Unlimited	£3.4m	yes
Money Market Funds (MMF)	Only in conjunction with advice for Arlingclose	£1m per fund	0	yes
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992	£2m	0	yes
Building Societies	Building societies with a rating (as for the banking sector)	£2m	0	yes
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more	£2m/9 months	0	yes

30 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	31.12.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	21.62	28.99	30.99	Yes
Total debt	**21.62**	**28.99**	**30.99**	

31 Since the operational boundary is a management tool for in-year monitoring, there may be occasions when actual borrowing exceeds this target. This may be due to variations in cash flow and short-term breaches would not count as a compliance failure.

TREASURY MANAGEMENT INDICATORS

32 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark

33 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making.

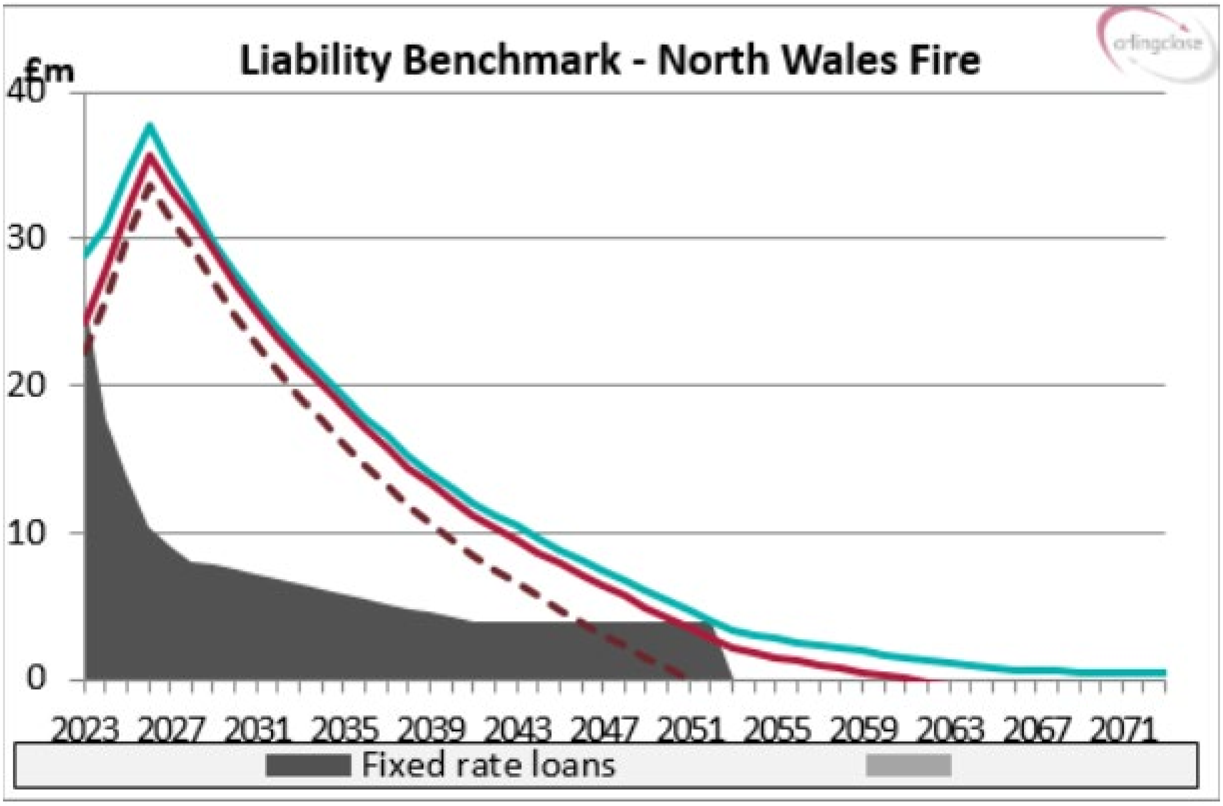
34 It represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £2.0m required to manage day-to-day cash flow.

	31.3.23 Actual £m	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	28.88	32.42	34.50	37.70
Less: Balance sheet resources	-6.40	-5.00	-4.50	-4.00
Net loans requirement	22.48	27.42	30.00	33.70
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
Liability benchmark	**24.48**	**29.42**	**32.00**	**35.70**
Existing borrowing	**-26.65**	**-17.80**	**-14.10**	**-10.50**

35 The above forecast does not include any costs for the proposed training centre, as it is yet to be agreed by the Authority.

36 The liability benchmark is a long-term measure of the underlying need to borrow for <u>all</u> purposes over the long term and is based on the current capital programme and other forecast cash flow movements. It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing is more appropriate.

37 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £4m - £6m between 2023/24 and 2025/26, minimum revenue provision on new capital expenditure based on the current asset lives, as per the accounting policy, income and expenditure increasing by inflation of [2.5]% p.a. and a reduction in reserves. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



38 The graph shows the Authority is expecting to need to borrow in future years. The Authority will always have a borrowing requirement as it does not hold significant cash or reserves and only has limited access to capital grant funding.

39 The blue line represents the need to fund capital expenditure through borrowing (the Capital Financing Requirement or CFR). The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.

Maturity Structure of Borrowing

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

	31.12.23 Actual	Actual Limit	Upper Limit	Lower Limit	Complied Y/N
Under 12 months	5.61	25.95%	60.00%	0.00%	Y
12 months and within 24 months	2.38	11.01%	45.00%	0.00%	Y
24 months and within 5 years	6.10	28.21%	45.00%	0.00%	Y
5 years and within 10 years	0.67	3.10%	75.00%	0.00%	Y
10 years and above	6.86	31.73%	100.00%	0.00%	Y

41 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments

42 The Authority does not hold any long-term treasury investments.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 1.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 9**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Dafydd Edwards - Treasurer**
Contact Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Subject	**Treasury Management Practices (TMPs)**

PURPOSE OF REPORT

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management requires North Wales Fire and Rescue Authority (the Authority) to approve relevant practices, principles and schedules annually. These are required to ensure that the Authority's Treasury Management policy is set and adhered to, and to establish working practices and controls in order to implement the approved strategy.

EXECUTIVE SUMMARY

2. As part of the governance arrangements for Treasury Management, the Authority is required to adhere to key elements of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code).

3. Section 5 of the Code sets out the formal documents that must be in place and approved by the Authority. These include:

   - A treasury management policy statement stating the policies, objectives, and approach to risk management in treasury management activities; and
   - A statement of treasury management practices (TMPs), setting out the manner in which the Authority / Service will seek to implement those policies to achieve the objectives, and prescribing how it will manage and control those activities.

4. The responsibility for establishing these arrangements ultimately rests with the Authority, who will approve the investment management policies, practices and activities, and approve an annual strategy and plan, in advance of the year. Thereafter, quarterly scrutiny and monitoring is delegated to the Audit Committee.

5. The day to day administration and execution of treasury management decisions are undertaken in accordance with the Service's scheme of delegation by the Head of Finance and Procurement and the Finance team, under the ACFO Finance and Resource's guidance, with oversight by the Authority Treasurer (the Section 151 Officer). All relevant officers will act in accordance with the Authority's policy statement, TMPs, and CIPFA's Code of Practice for treasury management.

6. The Authority's treasury advisor, Arlingclose, provides finance officers with daily information on investment counterparties' credit ratings, economic summaries, and advice on interest rate trends with a view to facilitating timely borrowing.

7. The Audit Committee will scrutinise reports on the Authority's treasury and investment management policies, practices and activities, and will recommend approval thereof by the Authority. In advance of each financial year, the Audit Committee will scrutinise reports on the Authority's annual strategy and plan, and will recommend approval by the Authority. The Audit Committee will also scrutinise and approve in-year quarterly updates and an annual report after year-end, in the form prescribed by the Authority's TMPs.

RECOMMENDATION

8. Members are asked to:

   i) recommend that the Authority approve the Treasury Management Practices, Principles and Schedules for 2024/25 as set out in this report and Appendix. This will ensure compliance with CIPFA's Code of Practice for Treasury Management.

BACKGROUND

9. The Authority defines its treasury management activities as the management of the Authority'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.

10. CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) provides the governance framework for these activities. Compliance with the Code demonstrates that the Authority has taken reasonable measures in this complex and technical area.

INFORMATION

11. Effective treasury management supports the Authority's achievement of its business and service objectives. The Authority 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.

12. The Authority's borrowing is required to be affordable, sustainable and prudent, and consideration will be given to the management of interest rate risk and refinancing risk. The source of borrowing and the type of borrowing should allow the Authority transparency and control over its debt. 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.

13. The Authority's priority in relation to its treasury investments (primarily cash deposits in banks) is the security of capital and liquidity (or accessibility) of these investments. The Authority's objective when investing treasury monies is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults, and the contradictory risk of receiving unsuitably low investment income.

14. The Authority only invests in the short term, for treasury management purposes and does not invest balances for more than one year.

15. Day to day management of the treasury function is implemented by the Finance and Procurement Department, with information and advice from the Authority's treasury advisor, Arlingclose. The Treasury Management Practices document sets out the responsibilities and duties of Members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

16. The Authority's proposed Treasury Management Practices for 2024/25 are set out within Appendix 1 of this report, and provide the mechanism by which the treasury management activities will be undertaken and the associated risks managed.

IMPLICATIONS

Wellbeing Objectives	Effective treasury management enables the Authority to achieve its long-term well-being objectives which are: To support people to prevent accidental dwelling fires and stay safe if they do occur; To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk
Budget	Minimum Revenue Provision and interest costs form part of the budget. For 2024/25 this will be £2.8m.
Legal	The Authority has a legal duty to set a balanced revenue budget. This includes the cost of treasury management.
Staffing	None – treasury management is competed by staff within the Finance and Procurement Department
Equalities/Human Rights/ Welsh Language	None
Risks	Income and expenditure is closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members. This includes the movement in treasury management costs.

Gwasanaeth Tân ac Achub
Fire and Rescue Service

Treasury Management Practices (TMPs)

This document is uncontrolled when printed. All users are responsible for checking to confirm that this is the current version before use.

Version:	1.0	Next review:	31/03/2027	TMPs
Status:	Draft	Issue date:	xx/xx/2024	

PRINCIPLES AND SCHEDULES

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for North Wales Fire & rescue Authority treasury operations are referenced below:

TREASURY MANAGEMENT PRACTICES	**TMP Number**	**Page**
Organisational chart of the Authority's Finance and Treasury Division Statement of duties and responsibilities Absence cover	TMP5 TMP5 TMP5	33 33 36
Liquidity Management, Cash flow, bank overdraft, short-term borrowing/lending Cash Flow forecasts Bank statements, payment scheduling	TMP1[2] TMP8 TMP8	9 47 50
Electronic banking and dealing Standard Settlement Instructions, Payment Authorisation	TMP1[8] TMP1[8]	18 18
Approved types and sources of borrowing Approved investment instruments	TMP4 TMP4	30 31
Counterparty and Credit Risk Management Current criteria Counterparty List and Limits	TMP1[1]	6 7 9
Dealing: - Authorised dealers - Dealing limits - List of approved brokers - Deal Ticket proforma - Direct dealing list - Settlement transmission procedures	TMP5	 37 37 37 38 38 38
Reporting arrangements/Performance measurement Officers' responsibilities for reporting	TMP6 TMP2 TMP5	39 23 36
Budget, Statement of Accounts, treasury-related information requirements for Auditors	TMP7	43
Procedure Notes for Authority's treasury management system	LogoTech Manual (on shared drive)	
Anti-Money Laundering Procedures	TMP9	52
Contingency Arrangements	TMP1[8]	20
External Service Providers	TMP11	57
References to Statute and Legislation	TMP1[7]	16

Introduction:

The CIPFA Code of Practice on Treasury Management in the Public Services (the TM Code) was last revised in December 2021. The TM Code requires The Authority to create and maintain, as the cornerstones for effective treasury and investment 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 – i.e. this document) 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

This TMP document also sets out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

Definitions

Treasury Management is defined by CIPFA as

> **The management of the Authority'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.**

'Investments' covers all the financial assets of the Authority, as well as other non-financial assets which the Authority holds primarily or partially to generate a profit, including but not limited to commercial property. Investments will be categorised in accordance with the primary purpose of the investment.

- Treasury management investments are those investments that arise from the Authority's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Service investments are those held primarily and directly for the delivery of public services, or in support of joint working with others to deliver such services. They may or may not involve financial returns.
- Commercial investments are those held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

The Code identifies three key principles

(1) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

(2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds

(3) They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

(1) The Authority will create and maintain, as the cornerstones for effective treasury management

   a. **A treasury management policy statement**, stating the policies, objectives and approach to risk management of its treasury management activities

   b. Suitable **treasury management practices (TMPs)**, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

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

   The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Section 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in material deviation from the Code's key principles.

(2) The Authority will receive reports on its treasury and investment management policies, practices and activities, including, an annual strategy and plan in advance of the year, a review at each Audit Committee meeting and an annual report after its close, in the form prescribed in its TMPs and IMPs.

(3) The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee, and for the execution and administration of treasury management decisions to the Head of Finance and Procurement, who will act in accordance with the organisation's policy statement and TMPs and IMPs.

(4) The Authority nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies

The Treasury Management Practices (TMPs) comprise:

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Anti Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Authority's treasury functions.

TMP1: RISK MANAGEMENT

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 robust due diligence procedures cover all external investment.

The Head of Finance and Procurement 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 organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements***.**

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

[1] Credit and counterparty risk

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

Principle

The Authority will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Schedule

Criteria to be used for creating/managing approved counterparty lists/limits	The *Head of Finance and Procurement* is responsible for setting prudent criteria and the Authority's treasury advisors will also provide guidance and assistance in setting the criteria. The criteria will be agreed by the Audit Committee. The current criteria is contained in the TMS. The Authority's treasury management advisors will advise on credit policy and creditworthiness related issues. The Authority will maintain a counterparty list based on its credit criteria (determined at least annually) and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from the main ratings agencies as listed below and other alternative assessments of credit strength (for example, statements of potential government support where applicable, resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities). Investment limits are set by reference to the lowest long-term rating from the agencies [currently A-] and other relevant factors, including external advice. 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 including information on corporate developments and market sentiment towards investment counterparties. Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.) Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.

Approved methodology for changing limits and adding/removing counterparties	The *Head of Finance and Procurement* has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.
Risk management: (a) creditworthiness deteriorates below the minimum criteria	Where an entity's credit rating is downgraded so that it fails to meet the minimum 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 other existing investments with the affected counterparty
(b) ratings are placed on review for possible downgrade	Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit 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 for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.
Details of credit rating agencies' services and their application	The Authority considers the ratings of the main ratings agencies e.g. Fitch, Moody's S&P when making investment decisions. Credit rating agency information is just one of a range of measures used to assess the creditworthiness of institutions.
Limitations of credit ratings and other information on 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 - bail-in risk metrics - credit default swap prices, - financial statements, - information on potential government support / bail-in impact - 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 meet the minimum credit rating criteria.

Description of the general approach to collecting and using information other than credit ratings for counterparty risk assessment	The Authority's Treasury Advisor, Arlingclose, provides timely information on counterparties in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as share price information. Arlingclose also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities. In addition, the *Head of Finance and Procurement* reads press articles for information on counterparties.
Full individual listings of counterparties and counterparty limits	An up-to-date individual listing of banking counterparties based on the criteria is provided by the treasury advisors.
Country, sector and group listings of counterparties and the overall limits applied to each, where appropriate	Monetary limits for any one organisation (other than the UK government) are set with reference to revenue reserves available to cover investment losses in order to minimise the impact on reserves in the case of a single default. The level of revenue reserves, and therefore the monetary limit, will be reviewed at least annually. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on - foreign countries, i.e. deposits with and CDs/bonds issued by non-UK organisations - total amounts invested with one fund management company, - investments in brokers' nominee accounts. 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.
Responsible Investment / ESG	The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. **<u>ESG policy</u>**: 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.

[2] Liquidity risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the Authority's business/service objectives.

Principle

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

The Authority will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

Schedule

Details of cash flow and cash balances	The Authority will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a minimum rolling 12-month cash flow forecast to determine the maximum period for which funds may be prudently 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.
Amounts of approved minimum cash balances and short-term investments	A balance in the region of £2m to deal with day to day cash flow fluctuations is maintained by investing money overnight with the Authority's bankers. The Authority also uses various Call Accounts to manage its liquidity requirements. These are named on the Authority's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Authority's investment strategy.
Details of short-term borrowing facilities	Temporary borrowing up to 1 year through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Authority before the start of each financial year.
Details of bank overdraft arrangements and standby facilities	The Authority does not have an authorised overdraft limit with its bankers. There is a 15% interest charge for each overnight period there is a debit balance.

[3] Interest Rate Risk Management:

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

Principle

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with its treasury management policy and strategy and in accordance with TMP6 *Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved 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.

The Authority will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Schedule

Proportions of fixed/variable rate debt	Borrowing/investments may be at a fixed or variable interest rate. In setting its forward Treasury Strategy on an annual basis, the Authority will determine the necessary degree of certainty required for its capital plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market condition. A fall in interest rates is beneficial for variable rate debt and short-term borrowing which needs to be refinanced, but not for variable rate investments. Conversely, a rise in interest rates is beneficial for short-term investments which can be reinvested at higher rates but will be a cost for variable rate borrowing or short-term borrowing which needs to be refinanced. The Authority sets an Interest Rate Risk indicator as part of its Treasury Management Strategy to control exposure to interest rate risk. This is set as (a) Upper limit on one-year revenue impact of a 1% rise in interest rates and (b) Upper limit on one-year revenue impact of a 1% fall in interest rates. The Interest Rate Risk indicator is not mandatory, but CIPFA encourages its use. The indicator above matches the one in the statement of accounts disclosure notes.

Guidelines for managing changes to interest rate levels	The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. The Authority will consider matching the level of borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. Interest rate forecasts are provided by the Authority's advisors and are closely monitored by the *Head of Finance and Procurement*. Variations from original estimates and their impact on the Authority's debt and investments are notified to the Audit Committee as necessary. Alternatively, the Authority may consider forward starting loans where the interest rate is agreed and fixed in advance but the cash is received at a later date. This would enable certainty of cost to be achieved without suffering a 'cost of carry' in the intervening period. There is, however, a risk in that interest rates may fall in the intervening period, however the Authority is committed to the pre-agreed drawdown of the loan on the relevant date at the higher rate. For its investments, the Authority may consider dealing from forward periods dependent upon market conditions. The Authority's counterparty term limits will apply and will include the forward period of the investment. There are, however, risks (i) that interest rates may rise in the intervening period and/or (ii) the creditworthiness of the borrower has deteriorated during the forward period, but the Authority is committed to the pre-agreed lending of monies to the counterparty on the relevant date.
Policies concerning the use of financial derivatives for interest rate risk management	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.
Negative interest rates	Should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.

[4] Exchange Rate Risk Management

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

Principle

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

Schedule

Details of approved exchange rate exposure limits for cash investments/debt	This Authority does not, on a day-to-day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity. If the Authority has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered and professional advice sought. The Authority does not borrow in currencies other than sterling. The Authority has also determined that all its investments will be in sterling.

[5] Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from treasury instruments won't be worth as much in the future because of changes in purchasing power due to inflation.

Principle

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 Authority's inflation exposures.

Investments over one year	The Authority does not, under normal circumstances, invest for more than 1 year. However, 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 (within reason and without taking undue risk), in order to maintain the spending power of the sum invested.

Contractual obligations linked to inflation	The Authority will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels. The significant obligations currently identified are: Short term borrowings PWLB Loans DMO deposits Bank deposits

[6] Refinancing Risk Management

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

Principle

The Authority will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised is 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 reasonably be achieved in the light of market conditions prevailing at the time.

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

Schedule

Projected capital financing requirements	Three-year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided. As required by the Prudential Code, the Authority will undertake Options Appraisal to evaluate the best capital expenditure financing route.

Debt/other capital financing maturity profiling, policies and practices Liability Benchmark	The Authority will maintain through its treasury system, Logotech, reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings. To assist with long-term borrowing decision making the Authority creates, with advice and assistance from its treasury advisor, a '**Liability Benchmark' [LB]** which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the Authority 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. The LB is represented as a graph in the annual treasury management strategy. It will be updated regularly through the year by the Authority in conjunction with the treasury management advisors with developments and/or timing changes in the capital programme as well as changes to balance sheet resources. Based on the output of the Liability Benchmark and the Authority's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Authority's Prudential Indicators and the Annual Treasury Management Strategy. Avoiding a concentration of loan maturities in a single financial year or over any 2-3 year period will reduce the risk of having to refinance at a time when interest rates are unfavourable to the Authority.
Borrowing from commercial lenders	Where lenders to the Authority are commercial bodies, the Authority will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

[7] Legal and Regulatory Risk Management

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

Principle

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *Counterparty credit 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.

Schedule

References to relevant statute, regulations, statutory guidance and recognised codes of practice	The treasury management activities of the Authority shall comply fully with statute and regulations and have regard to statutory guidance and recognised Codes of Practice. These are: ▪ Local Government Act 2003 ▪ Local Government and Elections (Wales) Act 2021 (in relation to general power of competence) ▪ The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments ▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 and subsequent amendments ▪ Welsh Government Statutory Guidance on Local Government Investments (2019 Edition) ▪ CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 Edition) and Guidance Notes for Local Authorities ▪ CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition) and Guidance Notes for Practitioners ▪ Relevant CIPFA Bulletins ▪ Bank of England Money Markets Code (2021 Edition) and Explanatory Notes
References to relevant parts of the Authority's constitution	▪ Contract Procedure Rules published on NWFRA website – financial section ▪ Financial Regulations published on NWFRA website – financial section ▪ Service Scheme of Financial Delegation – published on the intranet – Governance Section

Procedures for evidencing the organisation's powers/authorities to counterparties	To avoid the potential for illegal or irregular dealings in its treasury management activities the Authority will maintain and make available up-to-date records of its powers and of the regulatory regime under which the TM activities are undertaken. The Authority's Financial Regulations contain evidence of the power/authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Fire and Rescue Authority. The Authority will confirm, if requested to do so by counterparties, the powers and authorities under which the Authority effects transactions with them. Where required, the Authority will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.
Markets in Financial Instruments Directive II (MiFID II) changed	The Authority has retained retail client status with its providers of financial services, including advisers, banks and brokers, allowing it access to a smaller range of services but without 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.
Reporting and audit trail	To demonstrate openness and accountability and to minimise the risk of being challenged over whether the Authority pursued due processes, the Authority will maintain an audit trail of treasury management decisions and transactions. This not only dovetails with transparency on the Authority's decision-making process and assessment of the effectiveness of TM decisions, it also helps if it becomes necessary to demonstrate the legality or probity of transactions.
Statement on the organisation's political risks and management of the same	Political risk is managed by: • adherence to Corporate Governance (TMP12 *Corporate Governance*) • the role of the Fire and rescue Authority.

[8] Operational risk, including fraud, error and corruption

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

Principle

The Authority will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements to these ends.

Schedule

Details of systems and procedures to be followed, including Internet services	Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in the Department's Scheme of Delegation. 1. Electronic Banking and Dealing (a) The Authority's online banking service provided by Barclays Bank is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows: • Head of Finance & Procurement • Deputy Head of Finance and Procurement • Senior Finance Officer – Financial Accounting Officer access is reviewed at least 6 monthly or as necessary. (b) Access to the Authority's treasury management system, Logotech is limited to those officers listed below, each having a separate log-on and password. • Head of Finance & Procurement • Senior Finance Officer – Financial Accounting These also are reviewed at least 6 monthly or as necessary. Training on the Day to day operation of the online banking system is provided to new staff. A process manual in relation to the treasury management system is available on the shared drive. 2. Standard Settlement Instructions (SSIs): The named officers who have the authority to transact for loans and investments are: • Assistant Chief Fire Officer (Finance and Resources); • Head of Finance and Procurement; • Deputy Head of Finance and Procurement.

	3. Payment Authorisation: • Payments can only be authorised by an agreed signatory(ies) of the Authority, the list of signatories having previously been agreed with the Authority's bank. • Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts. • The Senior Finance Officer completes the day to day treasury management activities, under the supervision of the Head and Deputy Head of Finance & Procurement. No actions are undertaken without the authority of the supervising officers. The transfer of deposited funds are input and approved, on the bank portal by separate officers.
Verification	Loans and investments will be maintained in the treasury management system which will include fees and brokerage paid. **Transactions** will be cross-checked against broker notes /counterparty confirmations / contract notes / PWLB loan confirmations by verifying dates, amounts, interest rates, maturity, interest payment dates, etc. When receiving requests for **change of payment details**, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.
Substantiation	1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end 2. Working papers are retained for audit inspection 3. The bank reconciliation is carried out at least weekly from the bank statement to the financial ledger, via the financials system.
Internal Audit	Internal Audit carry out a review of the treasury management function as part of their audit of the financial system.

Emergency and contingency planning arrangements	1. The treasury system is cloud based 2. Spreadsheets are maintained with treasury information, in case of system downtime. 3. Temporary off-site working facility: The officers who can avail of this facility following an emergency are Head of Finance and Procurement and Senior Officer (Financial Accounting) who will individually be made aware of the procedures to follow. 4. Electronic Banking System Failure: emergency arrangements have been agreed with the Authority's bank for obtaining balance details and information on inflow/outflow of monies, via the telephone. The bank will also support in making critical payments, via notification to the Relationship Director. 5. The Business Continuity Plan is maintained by the Head of Finance and Procurement and saved on the Finance shared drive. Staff have been requested to hold printed copies for reference.
Insurance cover details	The Authority has Officers Indemnity cover. Details of the provider and cover are held by the DPO.

[9] Price Risk Management: The risk that, through adverse market fluctuations in the value of the principal sums the Authority borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle

This 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 sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate	Investment instruments used by the external fund managers (for example CDs, bonds or funds investing in equities/bonds/property etc) are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective. The Authority may consider investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors.

	The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the Authority's annual investment strategy.
Accounting for unrealised gains/losses	A statutory override is in place until March 2023 for fair value gains and losses on most pooled investment funds not to be taken to revenue (capital finance regulation 24K). The regulation requires fair value gains and losses on pooled investment funds to be taken to an unusable reserve, the Pooled Investment Fund Adjustment Account, except those: • held on behalf of a pension fund or trust fund, • classed as capital expenditure, • that are neither UCITS funds nor approved by HM Treasury for use by local authorities, • that have been elected to fair value through other comprehensive invoice (FVOCI), or • that have been redeemed, sold or otherwise disposed of. The Authority does not, under normal circumstances, invest in pooled funds.

TMP2: PERFORMANCE MEASUREMENT

Principle

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 ongoing 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, or 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 using the criteria set out below. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

Schedule

Policy concerning methods for testing value for money	Best value reviews will include the production of plans to review the way services are provided by: ▪ Challenging ▪ Comparing performance ▪ Consulting with other users and interested parties ▪ Applying competition principles In order to pursue continuous improvement in the way the Authority's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement	• Performance measurement at the Authority is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Authority's Prudential Indicators and to enhance accountability. • Prudential Indicators are specific to the Authority and not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Authority's agreed strategy (i.e. the Authority will avoid hindsight analysis). Any comparison of the Authority's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to: (i) allow the Authority the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. In drawing any conclusions, the Authority will bear in mind that the characteristics of its treasury operations may differ from those of Councils, particularly with regard to the effective management of risk.
Methodology to be applied for evaluating the impact of treasury management decisions	There are currently no locally set PIs in relation to the measurement of TM. Reporting is against the statutory PIs. Monitoring of the outcome of treasury management activity against Prudential Indicators (PIs) approved by the Authority will be carried out as part of the treasury management reports to the Audit Committee at each meeting. The Treasury Reports will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. As the Authority's treasury activities generally involves both borrowing and lending at various times, will measure the performance of the borrowing and investment portfolios on an individual as well as net treasury basis. If a net borrower, this will be borrowing costs net of treasury investment income using the average rate. The Authority participates in the Treasury Management Advisor's quarterly investment benchmarking and from time to time, other benchmarking such as for Balance Sheet and Debt.

Methods to be employed for measuring the performance of the Authority's treasury management activities	Treasury management activity is reviewed quarterly against strategy and prevailing economic and market conditions through the Treasury Management report to the Audit Committee. Examples of performance measures can be viewed by accessing the reports at [Fire and Rescue Authority - North Wales Fire And Rescue Service (gov.wales)]
Benchmarks and calculation methodology with regard to risk and return: debt management and investment	All benchmarking should consider risk as well as return/cost. **Treasury Management Costs** There are no separate TM costs for the Service, as the function forms part of the costs of the finance departments. The Service is too small to have dedicated TM staff. **Investment returns** Before investments are place, interest rates are reviewed and the best rate for the amount and period of investment is chosen. The Service does not hold long term investments and deposits relate to cashflow balances, usually placed overnight. Investments are made in line with the TMS. The Service participates in the Arlingclose quarterly benchmarking exercise and the results are reviewed as part of the TM meetings. ***Debt Management*** ▪ Borrowing as a % of net revenue requirement ▪ Percentage of debt maturing in (i) 12 months and (ii) 12-24 months which will need refinancing ▪ Percentage of PWLB and market debt (beginning and end of period) ▪ Percentage of fixed and variable rate debt (beginning and end of period)
Policy concerning methods for testing value for money in treasury management	The treasury management function will be the subject of ongoing analysis of the value for money it adds in support of the Authority's stated corporate and service objectives. When tendering for treasury-related or banking services, the Authority adheres to its Financial Regulations and Contract Procedure Rules - *31 (gov.wales)* a) If necessary, the Authority will also consult with other users of similar services as well as with interested parties b) The Authority will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery

TMP3: DECISION MAKING AND ANALYSIS

Principle

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 accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule

Capital expenditure and investment plans	The Prudential Code requires the Authority to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Authority. Therefore, effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt. The Prudential Code encourages determining spending priorities and affordability criteria. The fundamental objective in the consideration of the affordability of the Authority's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits. In considering the affordability of the capital plans, the Authority is required to consider all of the resources available to it or estimated for the future, together with the totality of the capital plans, income and expenditure forecasts.

Major treasury decisions	As a public service organisation, the Authority will demonstrate openness and accountability in treasury management activities and will create and maintain an audit trail of treasury management decisions which comprise: a) setting and any in-year changes to Prudential Indicator(s) b) options appraisal to determine a funding decision c) raising new short-term or long-term loans/ other long-term source of finance d) prematurely restructuring/redeeming an existing loan(s) e) short-term investments g) leasing h) use of derivatives i) change in banking arrangements j) appointing/replacing a treasury advisor k) appointing/replacing a fund manager
Borrowing purpose	The 2021 Prudential Code is clear that in order to comply with this Code, an authority must not borrow to invest primarily for financial return. It is not prudent for the Authority to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the Authority's functions and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. The Statutory Guidance of Local Authority Investments in Wales 2019 considers that borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles in the statutory framework. If the Authority chooses not to comply with this principle in order to invest in property or other financial assets for commercial return, then the Authority must make additional disclosures about the reasons for doing so.

Process	**Liability benchmark [LB]:** The Liability Benchmark is a long-term measure of the underlying need to borrow for all purposes over the long term and is based on its current capital programme and other forecast cash flow movements. It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing (or long term investments, if the Authority is a net investor) are more appropriate. The LB an important borrowing risk management measure and will be inclusive in the decision-making process so as to prevent over-borrowing; it will also therefore form part of the Authority's audit trail justifying long-term borrowing decisions. To determine future years' debt requirement or, conversely, monies available for longer-term investment, the Authority will estimate and measure the LB for the full debt maturity profile. It is presented as a chart of four balances: • the Authority's current and projected Loans CFR and MRP • existing loan debt (does not include forecast debt), • net loans requirement, taking into account balance sheet resources • liability benchmark, which also takes into account the Authority's required liquidity allowance. • liquidity requirement, the LB is analysed as part of the annual treasury management strategy. ***Please refer to the relevant sections of the 2021 TM Code Guidance Notes for detail on the LB.*** Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment. Our treasury advisor Arlingclose provides the Authority with an online live tool (using Microsoft Teams) to assist with the preparation and regular updating of this important treasury management indicator.
Delegated powers for treasury management	The Head of Finance & Procurement has delegated powers to carry out the Authority's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Authority.

<table>
<tr>
<td>Issues to be addressed</td>
<td>In exercising these powers, the Head of Finance and Procurement and those to whom treasury activities have been delegated will

be clear about the nature and extent of any associated risks to which the Authority may become exposed and put in place effective mechanisms for risk management and mitigation
be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
ensure that relevant due diligence has taken place
be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail
ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits
be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive
follow best practice in implementing the treasury transaction

Borrowing objective: 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

In exercising borrowing and funding decisions, the Head of Finance and Procurement will:

evaluate economic and market factors that may influence the manner and timing of any decision to fund
evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
consider ongoing revenue liabilities created and the implications for the organisation's future plans and budgets
consider alternative forms of funding, including use of revenue resources, leasing and private partnerships
consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use
where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

Investment objective: 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.</td>
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</table>

	In exercising Investment decisions, the Head of Finance and Procurement will: • determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies • consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested • consider whether monies can be used in lieu of externally borrowing • consider the optimum period, in the light of cash flow availability and prevailing market conditions • consider alternative investment products and techniques available, if appropriate.
Processes to be pursued	The processes to be followed will be in keeping with TMP4 *Approved instruments, methods and techniques*.
Records to be kept	The Authority will maintain a record of all treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly. Electronic records and working papers will be maintained by the Authority.

TMP4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle

The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk Management*.

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Authority will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Authority has reviewed its classification with financial institutions under MiFID II and has set out below those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

Schedule

Approved treasury management activities	The Authority is permitted to undertake the following activities: ▪ Managing cashflow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Investing including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Authority's capital financing and surplus funds activities The above list is not definitive and the Authority would, from time to time, consider new financial instruments and treasury management techniques. However, the Authority will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.
Approved capital financing methods and types/sources of funding	• temporary money market loans (up to 364 days) • bank overdraft • loans from bodies such as the European Investment Bank (EIB) • Government and EU Capital Grants • Other Capital Grants and Contributions ▪ Private Finance Initiative ▪ Leasing ▪ Hire purchase The Authority may also use internal resources: • Capital Receipts • Revenue Balances • Reserves

	<u>Approved sources of long-term and short-term borrowing include</u> • HM Treasury's PWLB lending facility (formerly the Public Works Loans Board)* • Any institution approved for investments • Other public sector bodies – eg local authorities • Any other bank or building society authorised to operate in the UK • UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues * HM Treasury has issued new guidance regarding PWLB lending which will apply to any loan arranged from 26 November 2020. https://www.dmo.gov.uk/media/17136/pwlb-guidance-for-applicants.pdf The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved treasury investment instruments	The Authority will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity and then yield (in that order) of its invested monies in keeping with Welsh Government Investment Guidance issued in 2019. The Annual Investment Strategy should be approved by the full FRA , while subsequent quarterly reviews (monitoring actual investment performance) may be approved by the Audit Committee. The Authority will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Authority's credit criteria will also apply. ▪ Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), ▪ Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit) ▪ Investments in Money Market Funds ▪ Treasury Bills (short-dated UK government debt) ▪ UK government bonds (Gilts) The Authority will ensure it maintains the skills and experience necessary to evaluate the benefits and control the risks associated with the above investment instruments.

Investments that are not part of treasury management activity	The Authority do not have investments that are not part of the treasury management activity.
Use of Derivatives	The Authority does not make use of derivatives.
MiFID II professional client status	The Authority has not opted up, thus retaining **Retail** status acknowledging that it will have a more limited range of financial investment instruments but also receive greater regulatory protection of those investments. Designation under MiFID II will be endorsed by the treasury strategy and reviewed annually to ensure the designation remains appropriate.

TMP5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

Principles

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 and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance and Procurement 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 Head of Finance and Procurement will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Head of Finance and Procurement will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Head of Finance and Procurement will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Head of Finance and Procurement in respect of treasury management are set out in the schedule below. The Head of Finance and Procurement will fulfil all such responsibilities in accordance with the Authority's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

Schedule

FRA – annually approve the strategy, and receive reports from the Audit Committee for action, where relevant.
Audit Committee – receive TM reports, including the draft strategy and quarterly reviews (monitoring actual performance), and recommend action to the FRA, where relevant.

Authority Treasurer (part time) – advise the ACFO and HoF&P on the broad TM strategy and advise Authority Members if TM reports and implementation are sound and appropriate.
ACFO Finance and Resources – approves borrowing and approves investments when HoF&P or DHoF&P are on leave
Head of Finance & Procurement – completes borrowing applications and approves investments and completes bank payment when DHoF&P is on leave. In this instance ACFO approves the investment.
Deputy Head of Finance & Procurement – completes investment payments on banking portal.
Senior Finance Officer (Financial Accounting) – maintains schedules, completes instructions for investments, sets up payments on banking portal.

Limits to responsibilities / discretion at committee / executive levels	Audit Committee: receiving and reviewing • Capital Strategy • TM Prudential Indicators • Treasury Management Strategy • Quarterly treasury activity reports • Treasury Management Practices • external audit reports and acting on recommendations Fire Authority: • approval of treasury management policy statement, Treasury management strategy and Capital Strategy and treasury management practices • budget consideration and approval • approving the selection of external service providers

Principles and practices concerning segregation of duties	The segregation of duties will be determined by the Head of Finance and Procurement Segregation of duties exists in that: • the officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations • the officers responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments on the banking portal. • all borrowing/investments decisions must be authorised by the Head or Deputy Head of Finance and Procurement Additionally, the Authority receives bank statements on a daily basis. These are posted independent of the officers responsible for approving treasury activities, in order to maintain an adequate separation of duties.
Statement of duties/ responsibilities of each treasury / relevant post	The Head of Finance and Procurement • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting best value reviews • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • ensuring the adequacy of internal audit and liaising with external audit • recommending the appointment of external service providers • determining long-term capital financing and investment decisions • The Head of Finance and Procurement has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments • The Head of Finance and Procurement may delegate his/her power to borrow and invest to the Deputy Head of Finance and Procurement

	Senior Finance Officer (Financial Accounting) • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • submitting management information reports to the responsible officer • recording treasury management transactions in the TM system, • reconciling treasury management transactions with the financial ledger • recording/reconciling counterparty documentation
Absence cover arrangements	Cover in the absence of the relevant treasury management officer is provided by the Deputy Head of Finance and Procurement Cover is reviewed at least every 6 months, or as necessary. Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management system.
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	• The Head of Finance and Procurement is responsible for running the TM function. This role reports to the Assistant Chief Fire Officer ACFO (Finance and Resources), who receives all TM reports prior to submission to the Audit Committee. In addition, the part time Treasurer is the S151 officer, who will advise the ACFO and HoF on the broad TM strategy discuss the TM reports with the ACFO. • Either the Treasurer or the ACFO present the reports to Audit Committee and the Fire Authority.

Dealing

Authorised officers	Responsible officer for borrowing/investment decisions Borrowing activity: • ACFO (Finance and Resources) • Head of Finance and Procurement Lending activity: • Do not have lending activity Authorising payments for borrowing/lending: • Head of Finance and Procurement • Deputy Head of Finance and Procurement Investments: • ACFO (Finance and Resources) • Head of Finance and Procurement Transaction recording: • Senior Finance Officer (Financial Accounting)
Dealing limits	Internally Managed Investments: • the maximum for any one investment deal is £5 million (subject to the lending limits detailed in the Authority's Annual Investment Strategy.)
PWLB lending facility – terms and conditions	The lending arrangements for PWLB loans are provided by HM Treasury. https://www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/ HM Treasury has issued new guidance regarding PWLB lending which applies to any loan arranged from 26 November 2020. This guidance was updated on 12 May 2022, inserting new paragraphs 12 -17. https://www.dmo.gov.uk/media/zuxnuyir/pwlb-guidance-for-applicants-may-2022.pdf The current terms and application process are in Operational Circular 163, applicable to loans arranged from 21/10/21. a. Applications are completed using the PWLB's electronic template. In addition to loan details, the form includes qualifying questions to be submitted during the PWLB's operational hours (0930-1615). b. A Loan Conditional Confirmation letter is received. The loan application is subject to a review by HM Treasury. If no queries/objections are raised by trade date + 4, the loan advance is made on trade date + 5. Any changes to PWLB terms as documented in subsequent circulars will be communicated to all relevant officers in the Finance Team.

PWLB authorised dealers	Dealers authorised to transact with the PWLB are: *ACFO (Finance and Resources)* *Head of Finance and Procurement* A complete list of officers authorised to transact with the PWLB, and any amendment thereto, is provided to the PWLB using the authorisation amendment form available on the website.
Dealing platforms / portals	PWLB site
List of approved brokers	The only brokers currently used by the Authority is Tradition, due to the reduction in short term loans
Policy on brokers' services	It is the Authority's policy to utilise the services between at least two brokers. The Authority will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	The Authority does not tape the conversations with brokers. Conversations with brokers are not taped by the brokers.
Direct dealing practices	Direct dealing is carried out with institutions and identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Authority will ensure that each counterparty has been provided with the Authority's list of authorised dealers and the Authority's Standard Settlement Procedures.
Inter-authority dealing	The Authority also deals with other local authorities to borrow funds for treasury management purposes. In addition to transactions conducted through brokers, deals can be conducted via Arlingclose's iDealTrade execution-only dealing platform. A record of all deals, together with their specific terms, will be maintained by the Authority.
Deal Ticket proforma	Deals will be recorded as per the deal ticket proforma supplied by the broker/bank/DMO.
Settlement transmission procedures	• settlements are made by bank transfer • all bank payments relating to settlement transactions require authorisation by the Head or Deputy Head of Finance and Procurement. • If not settled by direct debit, the details are inputted on the banking portal.

Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker. Investments • email from relevant officer requesting the investment • confirmation from the broker/bank • confirmation from the counterparty Loans: • deal ticket with signature to agree the loan • confirmation from the broker and market counterparty • confirmation from PWLB
Arrangements concerning the management of counterparty lists	The Head of Finance and Procurement has responsibility for maintaining a watching brief regarding counterparties. Information regarding counterparties' credit ratings is received from Arlingclose Treasury Advisors and is routinely monitored.

TMP6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principles

The Authority will ensure that regular reports are prepared and considered on 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, full FRA will receive:

- An annual report on the strategy and plan to be pursued in the coming year

The Audit Committee, to which some treasury responsibilities are delegated, will receive:

- Quarterly monitoring reports on treasury management activities and risks, and
- 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 any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Authority will report the treasury management indicators required by regulation as detailed in the TM Code's sector-specific guidance notes.

The present arrangements and the form of these reports are outlined below.

Schedule

Clauses to be adopted as part of the Authority's Standing Orders Treasury Management Policy Statement	The recommended clauses to be adopted as part of the Authority's standing orders, financial regulations or other formal policy documents are in Section 5 of the 2021 Treasury Management Code. The Treasury Management Policy Statement is a short document defines the policies and objectives of the Authority's treasury management activities. The recommended text for adoption is provided by CIPFA in Section 6 of the 2021 Treasury Management Code. The Treasury Management Policy Statement is adopted by the Fire and Rescue Authority

<table>
<tr><td>Prudential Indicators</td><td>The Authority will cover the Prudential Indicators in its <u>annual</u> strategy documents determined before the beginning of each financial year:

<table><tr><td>Capital Strategy
Capital expenditure
Capital financing requirement (CFR)
Authorised Limit and Operational boundary
Gross debt and the CFR
Financing costs to net revenue stream
Net income from commercial and service investments to net revenue stream</td><td>Treasury Management Strategy
Liability benchmark
Maturity structure of borrowing
Long-term treasury management investments</td></tr></table>
The 2021 Prudential Code Guidance Notes cover indicators for Affordability and Prudence (pages 41-61). The 2021 Treasury Management Code Guidance Notes cover treasury indicators (pages 15-24). CIPFA's definitions are cross-referenced to the respective Codes.</td></tr>
<tr><td>Capital Strategy</td><td>This document, approved by the Fire Authority <u>annually before the start of each financial year</u>, gives a high-level overview of:

(i) how capital expenditure, capital financing and treasury management activity contribute to the provision of services,
(ii) management of the associated risk is managed and
(iii) implications for future financial sustainability.

It is tailored to the Authority's circumstances and covers:
- Capital expenditure, its financing, the governance process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions
- Debt, borrowing, MRP, investments; borrowing strategy, treasury investment strategy
- Investments for service purposes and their risk management and governance
- Commercial activities, Investments for commercial purposes and their risk management and governance
- Other long-term liabilities, such as financial guarantees and their governance
- Prudential indicators
- Revenue Budget implications
- Knowledge and skills, and confirmation that these are commensurate with the authority's risk appetite and activities.

CIPFA has provided detail on the Capital Strategy in the 2021 Prudential Code (Section 5, pages 17-19) and in the Prudential Code Guidance Notes to the 2021 (pages 21-33 as well as a checklist in Appendix A).</td></tr>
</table>

	The ACFO (Finance and Resources) and the Treasurer report explicitly on the affordability and risk associated with the Capital Strategy and whether they are satisfied that the proposed capital programme is prudent, affordable and sustainable, with an explanation how the conclusion has been reached. The ACFO (Finance and Resources) and the Treasurer also ensure that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members.
Treasury Management Strategy	This document, approved by the Fire Authority annually before the start of each financial year, covers - External Context: - Economic background; - Credit outlook; - Interest rate forecast Local context: - Balance sheet summary and forecast and an explanation of the movements - Liability benchmark - The existing investment and debt portfolio position - The Authority's borrowing strategy; approved sources of borrowing and other sources of debt finance; - The Authority's Treasury Investment Strategy, ESG policy for investments, approved investment instruments, counterparties and time/monetary limits; minimum credit ratings (where applicable) and risk assessment; - Treasury management prudential indicators - Related matters -e.g. use of financial derivatives - MiFID II status - Financial implications of the strategy - Appendix: Additional requirements of Welsh Government
Treasury Activity Reports	The **Annual Treasury Outturn Report** will be prepared by the Head of Finance and Procurement as soon as practicable after the financial year end. It covers the treasury activity undertaken against the forecast and prevailing economic and interest rate backdrop for the full financial year. This annual report includes: - borrowing and investment activities undertaken including forward deals agreed and their revenue (current) effects - report of material treasury decisions taken in year - risk implications of decisions taken and transactions executed - compliance with agreed policies/practices and on statutory/ regulatory requirements - report on compliance with CIPFA TM Code recommendations - monitoring of treasury management indicators for local authorities - training /CPD undertaken by treasury officers.

	A **Quarterly Treasury Outturn Report** will be prepared by the Head of Finance and Procurement, and report on treasury management activities for each quarter of the financial year. It covers the treasury activity undertaken against the forecast and prevailing economic and interest rate backdrop for the relevant period. This quarterly review includes: - borrowing and investment activities undertaken including forward deals agreed - report of material treasury decisions - variations (if any) from agreed policies/practices - interim performance report - monitoring of treasury management indicators - forecast for the remainder of the financial year Both reports will be submitted to the Audit Committee responsible for the scrutiny of treasury management policies, practices, and activity. Where relevant, the Audit Committee may recommend action to the Fire Authority.

TMP7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance and Procurement will prepare - and the Authority will approve and, if necessary, from time to time will amend - an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.

The Head of Finance and Procurement will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Schedule

Statutory/regulatory requirements	*Balanced Budget Requirement*: Part I of the Local Government Finance Act 1992 requires the Authority to calculate its budget requirement for each financial year including, among other aspects: (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account, and (b) revenue costs which flow from capital financing decisions The Act requires the Authority to set a council tax sufficient to meet expenditure after taking into account other sources of income.
Accounting practices and standards	▪ The Accounts and Audit (Wales) Regulations 2014 and subsequent amendments ▪ The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments ▪ Welsh Government Statutory Guidance on Minimum Revenue Provision (2018 Edition) ▪ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK (2022/23 Edition) ▪ Relevant CIPFA Bulletins ▪ IFRS 7 Financial Instruments: Disclosures ▪ IFRS 9 Financial Instruments ▪ IAS 23 Borrowing Costs ▪ IAS 32 Financial Instruments: Presentation ▪ IPSAS 28 Financial Instruments: Presentation ▪ IPSAS 30 Financial Instruments: Disclosures ▪ IPSAS 41 Financial Instruments
Financial Statements	The Financial Statements comprise: ▪ Narrative Report ▪ Responsibilities for the Statement of Accounts ▪ Annual Governance Statement ▪ Comprehensive Income and Expenditure Statement ▪ Movement in Reserves Statement ▪ Balance Sheet ▪ Cash Flow Statement ▪ Notes to the Financial Statements
Format of the Authority's accounts	The current form of the Authority's accounts is available on the NWFRA website – financials page.

Disclosures relating to treasury management	Notes to the annual Statement of Accounts include: • Financial Instruments – Financial Assets, Financial Liabilities; Income, Expense, Gains and Losses on Financial Instruments • Fair Value of Financial Assets and Liabilities • Nature and Extent of Risks arising from Financial Instruments: Credit Risk, Liquidity Risk, Refinancing and Maturity Risk, Market Risks The Authority's treasury advisor, Arlingclose, provides a template for the above each year. The Authority will exercise judgement on the level of detail to be disclosed about particular financial instruments, taking into account the relative significance of those instruments. So that the information is comprehensible, material information should not be obscured by immaterial information or by aggregating material items that have different natures or functions.
Internal and External Audit	Internal Audit generally conducts an annual review of the treasury management function. The internal and external auditors will be given access to treasury management information/documentation as required by them.
List of information requirements of external auditors	The following information* is requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Authority's officers. *Information in this context includes internally generated documents including those from the Authority's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function. ▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003 ▪ Prudential Indicators ▪ Treasury Management Strategy including Annual Investment Strategy <u>External borrowing</u> • New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments) • Loan maturities

	- Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years. - Analysis of loans outstanding at year end including maturity analysis - Analysis of borrowing between long- and short-term - Debt management and financing costs - calculation of (i) interest paid (ii) accrued interest - interest paid - MRP calculation and analysis of movement in the CFR. - Bank overdraft position. - Brokerage/commissions/transaction related costs <u>Investments</u> - Investment transactions during the year including any transaction-related costs - Cash and bank balances at year end - Short-term investments at year end - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end - Calculation of (i) interest received (ii) accrued interest - Actual interest received - Evidence of existence and title to investments (month-end / quarter-end statements) <u>Cash Flow</u> - Reconciliation of the movement in cash to the movement in net debt - Cash inflows and outflows (in respect of long-term financing) - Cash inflows and outflows (in respect of purchase/sale of long-term investments) - Net increase/decrease in (i) short-term loans, (ii) short-term deposits, (iii) other liquid resources <u>Other</u> - Details of (treasury-related) material events after balance sheet date not reflected in the financial statements. - External advisors'/consultants' charges
Prudential Indicators	The treasury management indicators must be considered together with indicators in the Prudential Code as part of the budget approval process. Monitoring of the treasury management indicators will be reported quarterly (along with the other prudential indicators) as part of the Authority's general revenue and capital monitoring.

Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. They may also be expected to enquire as to whether the TM Code has been adopted and whether its principles and recommendations have been implemented and adhered to. Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.
Costs for treasury management	The budget for treasury management forms part of the Finance and Procurement and Capital Financing cost centres and includes • staffing numbers and related costs • premises and other administrative costs • interest and other investment income • debt and other financing costs (or charges for the use of assets) • bank and overdraft charges • brokerages, commissions and other transaction-related costs • external advisors' and consultants' charges.

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 Head of Finance and Procurement 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 Head of Finance and Procurement will ensure that these are adequate for the purposes of monitoring compliance with ***TMP1[2] Liquidity Risk Management***, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate). The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule

Arrangements for preparing /submitting cash flow statements	Cash flow forecasts will be viewed over 3-year time horizons and will be used to formulate the Authority's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances. The cash flow forecasts and statements are held at operational level. An **outline medium-term cash flow** model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves. A **detailed annual cash flow** is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a weekly basis. It identifies the major inflows and outflows on a month by month basis. It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Authority's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years. **Daily cash flows** show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded on Excel spreadsheets.

Liability Benchmark (LB)	The LB helps establish whether the Authority is likely to be a long-term borrower or long-term investor in the future and represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level to manage day-to-day cash flow. The LB will be updated regularly through the year by the Authority with developments and/or timing changes in the capital programme as well as changes to balance sheet resources. ***Please see TMP 5 for more information on its use.***
Content and frequency of cash flow budgets	The detailed annual cash flow model includes the following: • revenue income and expenditure based on the budget, • profiled capital income and expenditure as per the capital programme, • profiled grant funding. **Revenue activities** <u>Inflows</u> ▪ Levies from Councils ▪ Government grants received ▪ Cash for goods and services ▪ Other operating cash receipts <u>Outflows</u> ▪ Salaries and payments on behalf of employees ▪ Operating cash payments ▪ Firefighter Pension payments **Capital activities including financing** <u>Inflows</u> ▪ Capital grants received ▪ Sale of fixed assets ▪ Other capital cash receipts <u>Outflows</u> ▪ Purchase of fixed assets ▪ Other capital cash payments **Financing, servicing of finance/returns on investments** <u>Inflows</u> ▪ New long-term loans raised ▪ New short-term loans raised ▪ Interest received ▪ Discount on premature repayment of loan

	Outflows ▪ Loan repayments ▪ Premia on premature repayment of loan ▪ Short-term investments ▪ Capital element of finance lease rental payments ▪ Interest paid ▪ Interest element of finance lease rental payments
Monitoring, frequency of cash flow updates	The annual cash flow statement is updated weekly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with: • Constituent Council levies • Actual salaries and other employee costs paid from account bank statements • Actual payments to Inland Revenue from general account bank statements • Actual capital programme expenditure and receipts
Bank statements procedures	The Authority can access bank statements, via the banking portal as and when required. These are posted by the Senior Finance Officer (Financial Accounting) and are reconciled to the general ledger usually on a daily basis, via the financials system.
Payment scheduling and agreed terms of trade with creditors	The Authority has a policy of paying suppliers, within 30 days or in line with agreed terms of trade (if different)
Arrangements for monitoring debtor/ creditor levels	Debtor levels are monitored monthly using the financials system. The level of creditor invoices being processed/remaining unpaid is monitored on a weekly basis by the Senior Finance Officer (Financial Accounting). A weekly report is produced that details all BACS payments for the next 7 days in advance and recorded as part of the payment run in the financials system.
Procedures for banking of funds	Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received, by the Finance and Procurement Department are banked as and when required. The Finance department actively promote payment by direct debit, standing order and bank transfer to minimise the amount of cash and cheques received. All the Authority's sections are advised of the requirement to bank on a regular basis to comply with recommended best practice and also remain within the particular insurance limits for the Authority's premises.

Listing of sources of information	The treasury management function receives the majority of cash flow information from staff within the Finance and Procurement Department. The Fleet department provide details of vehicles and equipment that have been disposed of.
Practices concernir prepayments to obtain benefits	The following practices concerning prepayments are followed to obtain lower costs. Benefit and cost analysis completed to confirm value for money, where there is an option to prepay – for example computer licences that can be purchased for 3 years at a lower cost.

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. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule

Anti-money laundering policy	This Authority's policy is to prevent, wherever possible, the organisation and its employees being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Authority has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.
Main offences relating to money laundering	The **Proceeds of Crime Act (POCA) 2002** established the main offences relating to money laundering. In summary, these are: • concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland • being concerned in an arrangement that a person knows or suspects facilitates the acquisition, retention, use or control of criminal property • acquiring, using or possessing criminal property. These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction. Other offences include: • failure to disclose money laundering offences • tipping off a suspect, either directly or indirectly • doing something that might prejudice an investigation – for example, falsifying a document. The **Terrorism Act 2000** made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

Documentation	The Authority will reflect the anti-money laundering measures it has in place. Such measures include: • Awareness of what constitutes money laundering and training for employees most likely to encounter it, • The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed, and • Maintaining up-to-date direct dealing and SSI mandates with counterparties
Nomination of Responsible Officer(s)	(a)The Authority has nominated the Head of Finance and Procurement to be the responsible officer(s) to whom any suspicions relating to transactions involving the Authority will be communicated (b) The Head of Finance and Procurement will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions (c) The Head of Finance and Procurement will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and, in consultation with the ACFO (Finance and Resources) and the Treasurer, will make reports, where necessary, to National Criminal Intelligence Services (NCIS).
Procedures for establishing the identity/authenticity of Lenders and Borrowers	(a) In the course of its treasury activities, the Authority will only borrow from permitted sources identified in TMP4 *Approved instruments, methods and techniques.* (b) The Authority will not accept loans from individuals. (c) In the course of its treasury activities, the Authority will only invest with those counterparties which are on its approved lending list. (d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website - https://www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate (e) All receipts/disbursements of funds will be undertaken by BACS settlement.

	(f) Direct dealing mandates: The Authority will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed. (g) All banking transactions will only be undertaken by the personnel authorised to operate the Authority's banks accounts. (h) If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals. (i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details
	When borrowing/investing funds for treasury management purposes, the Authority will only borrow from and invest with sources and counterparties as identified in the Treasury Management Strategy. The criteria for the construction and management of the lending list are detailed in TMP1 *Risk Management*.

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 Head of Finance and Procurement will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The ACFO (Finance and Resources) will ensure that members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule

Details of approved qualifications	Head and Deputy Head of Finance and Procurement should be qualified accountants. Senior Finance Officer should have completed the AAT qualification.
Details of approved training courses	The courses/events the Authority would expect its treasury personnel to consider are - ▪ Training courses for Accounting, Budgeting, Capital Finance & Borrowing, Financial Management provided by CIPFA, the Association of Corporate Treasurers, and other appropriate organisations. ▪ Any workshops/seminars provided by Treasury Management consultants (Arlingclose provide routine and ad-hoc training). ▪ Attending CIPFA Conference and other relevant professional events. ▪ Training attended by those responsible for scrutiny of the treasury function.
Records of training received by treasury and other relevant staff	Treasury-related training records are maintained by the Training Department. A FIN09 form should be completed by attendees and submitted to the Training Department.
Records of training received by those charged with governance	Training records are maintained for members/committees responsible for governance of treasury management by the Monitoring Officer.

TMP11: USE OF EXTERNAL SERVICE PROVIDERS

The Authority recognises that responsibility for the treasury management decisions ultimately remains with the Authority at all times. It recognises that there may be potential value of 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 will 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 subjected to regular review. Further, it will 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 or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the Head of Finance and Procurement and details of the current arrangements are set out in the schedule below.

Schedule

Contract threshold	The Authority's Financial Regulations require that a contract is in place with external service providers where the contract value is £0.040m and above. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of the services provided	(a) Bankers to the Authority Barclays 0345 8359532 Contract period: ongoing Formal agreement in place: yes Services provided: banking services, i-portal, investments (b) Treasury Advisors: Arlingclose 08448 808200 info@arlingclose.com Contract period: 01/04/22 to 31/03/25 Formal agreement in place: yes Services provided: Treasury Management advice The Authority recognises that responsibility for borrowing, investments, and risk management remains with the Authority. (c) Brokers Due to current activity, the Authority use one broker. Tradition, 020 7198 1500 Contract period: n/a Formal agreement in place: no Services provided: source short term loans The Authority recognises that it is not the role of brokers to provide advice on the creditworthiness of those organisations to which the Authority may lend.

Regulatory status of services provided	The regulatory status of the Authority's external service providers are listed below: • Bankers to the Authority – regulated by Prudential Regulation Authority • Treasury Adviser – regulated by Financial Conduct Authority • Broker 1 – regulated by Financial Conduct Authority
Bribery Act	The Authority is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

TMP12: CORPORATE GOVERNANCE

The Authority is committed to the pursuit of proper corporate governance throughout its businesses 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.

The Authority has adopted and has implemented the key principles of the Treasury Management Code of Practice.

This, together with the other arrangements detailed in the schedule below, is considered vital to the achievement of proper corporate governance in treasury management, and Head of Finance and Procurement will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule

Stewardship responsibilities	The *Head of Finance and Procurement* ensures that: ▪ systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function. ▪ formal policy documents will define clearly procedures for monitoring, control and internal check and reporting lines are well defined.
List of documents to be made available for public inspection	The following documents are freely available for public inspection: ▪ Annual Statement of Accounts ▪ 10 Year Capital Plan ▪ Treasury Management Policy ▪ Capital Strategy ▪ Treasury Management Strategy including the Annual Investment Strategy (which will include treasury and non-treasury investments) ▪ Budget Monitoring Reports ▪ Annual and Quarterly Treasury Reports
Authority's website	Financial information is additionally available on the Authority's website – financial page.

Responsibility for treasury management	The *Head of Finance and Procurement* will ensure that ▪ those charged with responsibility for the treasury management policy, primarily the Audit Committee (quarterly), and the Fire Authority (annually) have all the information and advice necessary to enable them to openly fulfil their obligations, and are fully appraised of and consulted on the Authority's treasury management activities on a regular basis. ▪ the procedures for monitoring treasury management activities through audit, scrutiny and inspection are sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change.

INVESTMENT MANAGEMENT PRACTICES FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

Investments for service purposes (or service investments) are not undertaken by NWFRA.

Investments for commercial purposes (or commercial investments) are not undertaken by NWFRA.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 10**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard – Head of Finance and Procurement**
Subject	**Treasury Management Strategy (TMS) 2024-25**

PURPOSE OF REPORT

1 The purpose of this report is to present to Members of the North Wales Fire and Rescue Authority (the Authority) the proposed Treasury Management Strategy for the period April 2024 – March 2025, and provide Audit Committee Members with details and explanations of the proposed Strategy, in order to:

i. facilitate Members' support for approval by the Authority on 15 April, and
ii. equip Audit Committee Members with a solid foundation for their quarterly monitoring and scrutiny of actual Treasury Management activity during 2024-25.

EXECUTIVE SUMMARY

2 The Treasury Management Strategy (the Strategy) shows how the Authority will manage its borrowings (loans from the PWLB) and investments (mainly cash deposits at banks) for the coming year, and sets the policies within which the Treasury Management function operates.

3 This Strategy has been developed in conjunction with the revenue and capital budgets for 2024/25, and the Medium-Term Resource Strategy, which was approved by the Authority at its meeting of 22 January 2024, as well as the Capital Strategy, which is also being presented today.

RECOMMENDATIONS

4 Members are asked to:

i) endorse the Treasury Management Strategy for 2024/25; and
ii) recommend approval by the Authority.

BACKGROUND

5 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (the "CIPFA TM Code") requires the Authority to approve the Strategy and Prudential Indicators annually. The Audit Committee is required to review this report before it is approved by the Authority on 15 April 2024.

6 The Audit Committee has been tasked with ensuring effective scrutiny of treasury management strategy and performance. Based on its findings, the Audit Committee will make relevant recommendations to the Authority.

INFORMATION

7 The Strategy, and associated Prudential Indicators, is contained within Appendix 1 and provides an overview of the Authority's approach to borrowing to fund the capital expenditure plans. The Strategy also incorporates the approach to the management of investments, although Members should note that this incorporates the management of short-term surplus cash only.

8 Treasury Management involves looking after the Authority's cash, which is a vital part of the Authority's work, as approximately £46m passes through the Authority's bank account every year.

9 During the year, the Authority has had varying levels of cash available to invest, in the short term, ranging for £3m - £12m, in 2023/24. Consequently, it needs to make sure that the optimal rate of return is achieved without exposing the cash to undue risk. Risk is minimised by diversification, meaning that the Authority's money is invested with a number of financial institutions.

10 When investing, the Authority will adhere to the following 'SLY' principles. The order of these three principles is important, with Security being the overriding priority.

- **S**ecurity: Keeping money safe
- **L**iquidity: Ensuring that money is available when it is needed
- **Y**ield: Achieving a decent rate of return

11 The Authority will continue to borrow to fund capital expenditure. For 2024/25, borrowing of £5.676m is estimated, to fund the capital expenditure. It is expected that this will increase the borrowing to £24.493m by 31 March 2025 (March 2024 estimate: £20.787m).

12 It is estimated that the interest on current and new loans for 2024/25 will be £0852m. Interest rates for new loans have been forecast at 5.25%.

13 The Authority is supported through the use of professional advisors, Arlingclose, who provide advice and guidance in relation to treasury management activities.

14 The Capital Prudential indicators will be reported as part of the Capital Strategy.

IMPLICATIONS

Wellbeing Objectives	This report links to the Authority's long-term well-being objectives by ensuring that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. The Capital Strategy is designed to ensure that there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	The strategies link to the revenue and capital budget setting which considers longer term affordability
Legal	The regulatory framework is set out in the appendices to the report.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	The reports set out the financial risks associated with borrowing and investment activities.

Treasury Management Strategy 2024-25

North Wales
Fire and Rescue Service

CONTENTS

1 Introduction

1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2 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. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment 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 both the CIPFA Code and the WG Guidance.

1.3 **Revised strategy:** In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, with implications for the Authority's capital programme.

2 External Context

2.1 **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.

2.2 **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.

2.3 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

2.4 For the purpose of setting the budget, it has been assumed that new long-term loans will be borrowed at an average rate of 5.25%.

3 Local Context

3.1 On 31st December 2023, the Authority held £21.620m of borrowing and £7.743m of treasury investments, as detailed below.

	Dec 2023 Actual portfolio £m	**Dec 2023 Average rate %**
External borrowing:		
Public Works Loan Board	18.620	2.46%
Local authorities	3.000	4.35%
Total external borrowing	**21.620**	
Other long-term liabilities:		
Finance Leases	0	
Total gross external debt	**21.620**	
Treasury investments		
The UK Government	3.400	5.19%
Banks (unsecured)	4.343	4.65 - 5.38%
Total treasury investments	**7.743**	
Net debt	**13.877**	

3.2 Currently all leases are treated as operational leases, however from 1 April 2024, the reporting of leases will change and some leases will be classed as Right of Use (ROU) assets – for example property leases and will feature within the borrowing information on future reports.

3.3 Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.23 Actual £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
Capital financing requirement	28.877	32.350	36.391	40.948	42.765
Less: Other debt liabilities *	0.000	0.000	-0.225	-0.252	-0.302
Loans CFR	28.877	32.350	36.616	41.200	43.067
Less: External borrowing **	-26.460	-20.787	-17.073	-11.456	-10.137
Internal/(over) borrowing	**2.417**	**11.563**	**19.543**	**29.744**	**32.930**
Less: Balance sheet resources	-6.594	-5.600	-4.700	-4.200	-3.700
Investments/ (new borrowing)	**4.177**	**-5.963**	**-14.843**	**-25.544**	**-29.230**

* leases that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

3.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.5 The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £16.568m over the period 2024-2027

-CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comfortably comply with this recommendation during 2024/25.

3.6 **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 £2m at each year-end to maintain sufficient liquidity but minimise credit risk.

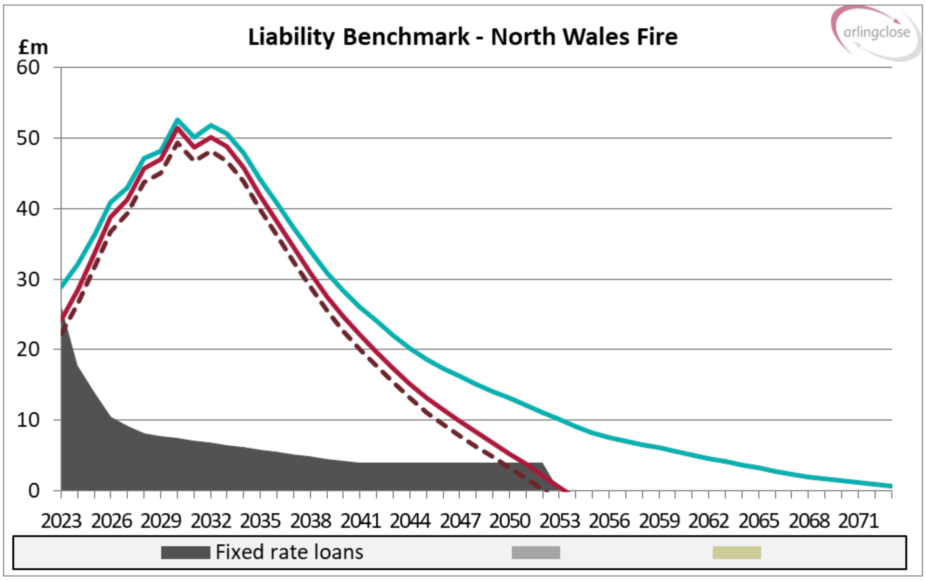
3.7 The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority 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

	31.3.23 Actual £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
Loans CFR	28.877	32.350	36.616	41.200	43.067
Less: Balance sheet resources	-6.594	-5.600	-4.700	-4.200	-3.700
Net loans requirement	22.283	26.750	31.916	36.800	39.367
Plus: Liquidity allowance	2.000	2.000	2.000	2.000	2.000
Liability benchmark	**24.283**	**28.750**	**33.916**	**38.800**	**41.367**

3.8 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure is to be funded by borrowing of £5.676m in 2024/25, £6.424m in 2025/26 and £4.468m in 2026/27.

3.9 Minimum revenue provision on new capital expenditure is based on their asset life for the class of asset (for example 50 years for buildings, 15 years for fire appliances) and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



3.10 The Authority will continue to be a borrower, as the authority does not hold investments or reserves to fund the capital plan. The blue line denotes the need to fund capital expenditure through borrowing. The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.

4 Borrowing Strategy

4.1 The Authority currently holds £21.620m of loans, a decrease of £4.840m on balance at 31 March 2023, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £14.843m in 2024/25. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £36.616m.

4.2 **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.

4.3 **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. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years. It is therefore likely to be more cost effective, over the medium-term, to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of 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. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. 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.

4.4 The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and/or local authorities, in order to lower interest costs and reduce over-reliance on one source of funding, in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority will continue to avoid this activity in order to retain its access to PWLB loans.

4.5 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.6 In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

4.7 **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 (except for the Clwyd Pension Fund - Local Government Pension Scheme)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.8 **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
- sale and leaseback
- similar asset-based finance

4.9 **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 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 Audit Committee.

4.10 **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. Financial derivatives may be used to manage this interest rate risk (see section below).

4.11 **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.

5 Treasury Investment Strategy

5.1 The Authority holds 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 £3.737m and £14.616m million. Investment levels are expected to be lower in the forthcoming year, partly due to the amount of Welsh Government grant receivable in relation to the Firefighter's Pension Fund.

5.2 **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimal 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.

5.3 **Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

5.4 **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.

5.5 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	Unlimited
Registered providers (unsecured) *	5 years	£1m	Unlimited
Money market funds *	n/a	£1m	Unlimited
Other investments *	5 years	£1m	Unlimited

This table must be read in conjunction with the notes below

* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in the table above 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's 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.

5.6 **Government:** Loans to, and 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 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.

5.7 **Banks and building societies (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.

5.8 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.9 **Operational bank accounts:** The Authority may incur operational exposures, for example though 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 below £5m per bank. 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.

5.10 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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.

5.11 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch"), 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.

5.12 **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

5.13 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.14 **Liquidity management**: The Authority undertakes 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. No long-term investments are undertaken. The Authority will spread its liquid cash over at least two 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.

6 Treasury Management Prudential Indicators

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

6.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit	A

6.3 **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.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£2m

6.4 **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% rise in interest rates	-£0.030m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.030m

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.

6.5 **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:

Refinancing rate risk indicator	**Actual**	**Upper limit**	**Lower limit**
Under 12 months	26%	30%	0%
12 months and within 24 months	11%	30%	0%
24 months and within 5 years	28%	40%	0%
5 years and within 10 years	3%	30%	0%
10 years and above	32%	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7 Related Matters

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

7.1 **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.

7.2 **Markets in Financial Instruments Directive**: The Authority has retained retail 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 Authority's officers believe this to be the most appropriate status.

7.3 **Government Guidance:** Further matters required by the WG Guidance are included in Appendix B.

8 Financial Implications

8.1 The Authority does not hold an investment portfolio and therefore there is no budget for investment income in 2024/25. Any investment income relates to the overnight placement of surplus cash. The budget for debt interest paid in 2024/25 is £0.852m, based on an average debt portfolio of £24.493m at an average interest rate of 5.25%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9 Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for authorities to adopt. The Authority Treasurer 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

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	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 – Additional requirements of Welsh Government Investment Guidance
The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities.

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy to the extent that 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.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

The Authority does not have any financial exposure to loans to local enterprises, local charities, wholly owned companies and joint ventures.

Non-specified investments: The Authority does not have any non-specified investments.
Non-financial investments: The Authority does not have any non-financial investments.
Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisors. The quality of these services is controlled by an internal review.
Capacity and skills: The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer, Assistant Chief Fire Officer (Finance and Resources), and Head of Finance and Procurement are qualified accountants with many years' experience.

The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Arlingclose have provided training to members of the Audit Committee, who have responsibility for reviewing treasury management activities.

Corporate governance: All treasury activity is reported to the Audit Committee and Fire Authority, on a quarterly basis. The reports are presented by the Treasurer or Assistant Chief Fire Officer (Finance & Resources). Members have the opportunity to ask questions, following the presentations.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 11**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard** **Head of Finance and Procurement**
Subject	**Capital Strategy 2024-34**

PURPOSE OF REPORT

1 The purpose of this report is to present to Audit Committee Members the proposed Capital Strategy for the period April 2024 – March 2034, and provide details and explanations of the proposed Strategy, in order to facilitate Members' support for approval by the North Wales Fire and Rescue Authority (the Authority) on 15 April.

EXECUTIVE SUMMARY

2 The purpose of the Capital Strategy is to set out how the Authority proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. The capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

3 This Strategy has been developed in conjunction with the revenue and capital budgets for 2024/25, and the Medium-Term Resource Strategy, which were approved by the Authority on 22 January 2024, as well as the Treasury Management Strategy, which is also being presented today.

RECOMMENDATIONS

4 Members are asked to:

i) endorse the Capital Strategy for 2024- 2034; and
ii) recommend approval by the Fire and Rescue Authority.

BACKGROUND

5 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability, and affordability.

6 CIPFA issued Capital Strategy guidance in 2021. The strategy has been developed in line with this guidance.

7 The Capital Strategy supports the Community Risk Management Plan 2024-2029 and the 2024/25 Implementation Plan, to deliver the principles for the North Wales Fire and Rescue Service (the Service).

8 The Audit Committee has been tasked with ensuring effective scrutiny of treasury management and performance. The Audit Committee is asked to review the Capital Strategy before it is submitted for formal approval by the Authority on 15 April 2024.

INFORMATION

9 The Capital Strategy (the Strategy) and associated Prudential Indicators, is contained within Appendix 1 and provides an overview of anticipated capital expenditure for the next 10 years, and capital financing requirements and treasury management activity, for the next 3 years.

10 Capital expenditure is where the Authority spends money on assets, such as property, or vehicles, or equipment that will be used for more than one year. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

11 The Capital Strategy supports the Community Risk Management Plan 2024-2029 by providing resources to address issues arising from one or more of the principles within the Plan, as well as providing funding to maintain assets so that they remain fit for purpose.

12 Service Managers ‘bid’ annually, in September to include projects in the Authority’s capital programme. Bids are collated by the Finance and Procurement Department. For 2024/25 initial bids in excess of £10m were received. The bids are scored based on a variety of factors, including meeting the principles in the Community Risk Management Plan, statutory requirements, ability to make savings, and their environmental impact.

13 Following the review and discussions with service managers, a capital plan of £5.676m was presented to the Budget Scrutiny Working Group, which is summarised on page 8 of the Strategy. This planned capital expenditure will be funded from borrowing.

14 Further details regarding borrowing are included in the Treasury Management Strategy, along with the treasury management prudential indicators.

15 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue. The total of these revenue contributions is known as minimum revenue provision (MRP). The MRP charge for 2024/25 is expected to be £1.885m, rising to £2.601m in 2026/27.

16 Financing costs are expected to be 5.62% of the 2024/25 budget rising to 7.47% in 2026/27.

IMPLICATIONS

Wellbeing Objectives	This report links to the Authority's long-term well-being objectives by ensuring that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. The Capital Strategy is designed to ensure that there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	The strategies link to the revenue and capital budget setting which considers longer term affordability
Legal	The regulatory framework is set out in the appendices to the report.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	The reports set out the financial risks associated with borrowing and investment activities.

Capital Strategy 2024-2034

North Wales Fire and Rescue Service

CONTENTS

SECTION

1 Purpose of the Capital Strategy

1.1 The purpose of the Capital Strategy is to set out how North Wales Fire and Rescue Authority (the Authority) proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It takes into account other relevant strategies, policies and plans, and the views of partners and interested parties with whom the Authority is involved. It will serve as a useful point of reference when determining or reviewing the Capital Programme.

1.2 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year.

1.3 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.4 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. These decisions are therefore subject to both a national regulatory framework and to local policy framework, as summarised in this report.

1.5 The overall Capital Strategy seeks to assist the delivery of the Authority's Community Risk Management Plan (CRMP) 2024-2029.

1.6 Due to the ongoing impact of higher inflation, higher interest rates, uncertain government policy, and deteriorating economic outlook, additional financial pressures have been placed on the Authority. In consideration of these pressures, a review of the 2023/24 capital programme has been undertaken and priority has been given to the delivery of critical projects. The revised capital programme for 2023/24 totals £5.290m and is summarised below:

Scheme	Original Allocation £m	Revised Allocation £m	Forecast £m
2023/2024			
Fire Appliance replacement	1.430	0.475	0.475
Multi- purpose vans	0.189	0.189	0.269
Electric Van pilot	-	-	0.107
Welfare Units	0.150	0.150	0.150
Command & Control refresh	0.600	0.600	-
Minor Building works	0.483	0.100	0.100
Training Towers	0.250	0.250	-
Fleet - fall arrest system and roof works	0.100	0.126	0.126
Appliance bay doors	0.180	0.180	0.180
Llandudno Heating upgrade	0.150	0.150	-
Dolgellau Smokehouse works	-	0.365	0.256
Proposed training centre land	3.000	3.000	3.000
Unallocated	-	0.947	-
Total : Capital Plan	**6.532**	**6.532**	**4.663**
Rollover 2022/23			
Training Towers	0.307	0.307	0.307
Multipurpose station vans	0.160	0.160	0.162
Builidngs - Minor works	0.158	0.158	0.158
Total: Rollover	**0.625**	**0.625**	**0.627**
Total	**7.157**	**7.157**	**5.290**

2 Key Objectives and Priorities

2.1 One of the key objectives for Fire and Rescue Services in Wales is to continually and sustainably reduce risk and enhance the safety of citizens and communities. A Community Risk Management Plan (CRMP) aims to identify risks facing the community and describes how the Fire and Rescue Authority will manage those risks, and continue to prevent and respond to fires and other emergencies.

2.2 Our Community Risk Management Plan (CRMP) for 2024-2029 is due to go out for public consultation in March. The Community Risk Management Plan contains 5 principles:

- Within each of the principles there are actions/objectives that are required to deliver the CRMP.
- In addition, an Implementation plan has been developed, which highlights the actions that will be taken during 2024/25.
- This information is taken into account when developing the Capital Programme.

2.3 Capital investment projects will be included in the Capital Programme on the basis that they address issues arising from one or more of the principles. New proposals for capital investment will be assessed against the corporate principles and implementation plan to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

2.4 Where suitable "Invest to Save" projects can be identified the Authority will actively pursue such projects as it recognises the benefits, in the form of reduced costs falling on the General Fund Revenue Account, that can result from such investment.

2.5 The Authority will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery. If a building is no longer required for service delivery, it will be considered for disposal and the proceeds made available for future capital investment in priority areas. All property assets are held to provide services.

2.6 The Authority will seek, where practicable and economically justifiable, to develop its investment projects having regard to principles of sustainability, for example by considering the materials used, and environmentally friendly modes of operation following construction or purchase.

2.7 Service managers 'bid' annually, in September to include projects in the Authority's capital programme. Bids are collated by the Finance & Procurement Department. For 2024/25 initial bids in excess of £10m was received. The bids are scored based on a variety of factors including meeting the principles in the CRMP, statutory requirement, ability to make savings, and environmental impact.

2.8 Following the review and discussions with service managers, a capital plan of £5.676m was presented to the Budget Scrutiny Working Group, a sub group of the Audit Committee. This group is made up of 6 members, one from each constituent authority. The Budget Scrutiny Working Group was established to provide scrutiny of the budget setting process, including all areas of income and expenditure. The working group agreed for the capital programme to be included in the Fire Authority report.

2.9 The final capital programme is then presented, for approval, to the Fire Authority in January each year.

3 Factors Influencing the Capital Programme

3.1 Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

INTERNAL FACTORS	EXTERNAL FACTORS
CRMP Principles and Implementation Plan	Unforeseen emergency work
Investment identified in Strategies, policies and plans	Work required to comply with legislation – e.g. disabled access, health and safety
Work needed to maintain property assets	Availability of external funding
Vehicles, plant and equipment replacement needs	Public expectation that works should be carried out
ICT Investment and replacement	Projects resulting from Partnership Activity
Invest to Save projects	

STRATEGIES, POLICIES & PLANS
Medium Term Resource Strategy
Environment Strategy and Fleet Decarbonisation Plan
Health and Wellbeing Policy
Treasury Management Strategy
Procurement Strategy
Building condition surveys

4 Capital Expenditure and Financing

4.1 The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by the Welsh Government, and the consequent requirement for the Fire Authority to review its funding requirement. This arises from the need to restrict public expenditure owing to the ongoing economic conditions and to rebalance public finances. The Authority does not receive funding to finance capital projects, therefore the costs are met through borrowing.

4.2 For 2024/25, the Authority has developed a 10 year capital plan and are planning capital expenditure of £5.676m, for 2024/25, as detailed in the Medium Term Resource Strategy approved by the full Authority on 22 January 2024. The 3 years to 31 March 2027 are summarised below

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	**2023/24 forecast**	**2024/25 budget ***	**2025/26 budget***	**2026/27 budget***
General Fund Services	£3.366m	£5.290m	£5.676m	£6.424m	£4.468m
Leases	0	0	£0.225m	£0.252m	£0.302m
Total	£3.66m	£5.290m	£5.901m	£6.676m	£4.770m

* Change in the accounting for leases, following the implementation of IFRS16.

4.3 The General Fund capital projects include building works at stations, replacement ICT equipment for responding to incidents, infrastructure towards meeting net zero by 2030, and replacement vehicles. The future costs identified in this Strategy do not include the proposed development of a new training centre, as the business case for this will be submitted to the Fire Authority in 2024/25. Further details of those capital project costs included are analysed over the next ten years in the table below:

Project Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m
ICT upgrades		0.827	0.232	0.495	0.350	-	0.125	0.072	1.827	0.160	0.450
Training towers	0.307	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305
Station improvements	0.820	1.100	0.485	0.510	3.925	0.500	0.625	0.375	0.225	0.225	0.075
Sustainability works		0.470	-	1.000	-	-	-	-	-	-	-
Training Facilities upgrade		0.300	-	-	-	-	-	-	-	-	-
Fire Appliances	0.475	0.427	0.940	-	-	2.241	4.412	-	-	1.540	-
Specialist Vehicles (Red Flee	0.150	-	2.800	1.350	1.950	0.500	0.975	-	0.650	-	0.300
Light Vehicles	0.538	0.166	0.400	0.447	-	-	-	0.329	0.895	0.447	-
Specialist Light Vehicles		0.632	0.530	0.210	-	0.336	-	0.090	1.289	0.040	0.090
Operational Equipment		0.290	0.595	0.150	0.300	0.100	1.200	-	0.075	-	-
Fleet Equipment		0.050	0.136	-	-	0.033	0.020	-	-	-	-
Training Centre Land	3.000										
Rollover of Funding											
Fire Appliances		0.960	-	-	-	-	-	-	-	-	-
Sustainability works		0.150	-	-	-	-	-	-	-	-	-
Planned Capital Expenditure	**5.290**	**5.676**	**6.424**	**4.468**	**6.830**	**4.015**	**7.662**	**1.171**	**5.266**	**2.717**	**1.220**

4.4 All capital expenditure must be financed, either from external sources (government grants and other contributions), or the Authority's own resources (revenue, reserves and capital receipts), or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Internal Resources	0.525	0.727	0.000	0.000	0.000
Grant Funding	0.490	0.000	0.000	0.000	0.000
Debt	2.351	4.563	5.901	6.424	4.468
TOTAL	**3.366**	**5.290**	**5.901**	**6.676**	**4.468**

* £0.225m of debt financing in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure

4.5 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Minimum Revenue Provision	1.959	1.902	1.885	2.267	2.601
Capital receipts	0.000	0.000	0.000	0.000	0.000
TOTAL	**1.959**	**1.902**	**1.885**	**2.267**	**2.601**

- The Authority's full minimum revenue provision statement is available in Appendix 1.

4.6 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 actual	**31.3.2024 forecast**	**31.3.2025 budget ***	**31.3.2026 budget**	**31.3.2027 budget**
General Fund services	28.877	32.350	36.391	40.948	42.765
TOTAL CFR	**28.877**	**32.350**	**36.391**	**40.498**	**42.765**

* £0.225m of the CFR increase in 2024/25 arises from a change in the accounting for leases

4.7 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority is developing an asset management strategy in 2024/25. This will enhance the information already available from the the building condition surveys.

4.8 During 2024/25, a review of light vehicles, i.e. vehicles not used in incident response, will be undertaken. This will ensure that the Service has an effective and efficient fleet, in line with the aspirations of the Fleet Decarbonisation Plan.

4.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is not expecting to receive any significant capital receipts in the coming financial year.

5 Treasury Management

5.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term, as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls (referred to as 'internal borrowing') to reduce overall borrowing.

5.2 Due to decisions taken in the past, the Authority as at December 2023 had £21.620m borrowing at an average PWLB interest rate of 2.46% and short-term interest rate of 4.35%. Treasury investments amounted to £7.73m at rates between 4.65% - 5.38%. it is anticipated that the cash balance will be around £2m at year end (31/03/2024), if capital expenditure is as anticipated.

5.3 **Borrowing strategy:** The Authority's main objectives when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

5.4 The Authority does not borrow to invest for the primary purpose of financial return, and therefore retains full access to the Public Works Loans Board. Projected levels of the Authority's total outstanding debt (which comprises borrowing and leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.23 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Debt	26.460	20.787	24.493	28.508	30.234
leases	0.000	0.000	0.225	0.252	0.302
Total debt	**26.460**	**20.787**	**24.718**	**28.760**	**30.536**
Capital Financing Requirement	28.877	32.350	36.391	40.948	42.765

5.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

5.6 **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 that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £28.750m and is forecast to rise to £41.367m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.23 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Forecast borrowing	26.460	20.787	24.493	28.508	30.234
Liability benchmark	24.283	28.750	33.916	38.800	41.367

5.7 The table shows that the Authority expects to borrow below its liability benchmark, as it utilises internal borrowing, where possible. In 2023/24, borrowing was secured in advance of need, as the Authority took advantage of low interest rates. This borrowing has been used to fund the capital programme for 2024/25. The above table assumes that no further borrowing is actioned in 2023/24, however if there is an opportunity to borrow at a lower rate, before the year end, then as per the advice from the Authority's treasury advisors (Arlingclose), further borrowing will be secured.

5.8 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2023/24 limit £m	**2024/25 limit £m**	**2025/26 limit £m**	**2026/27 limit £m**
Authorised limit - borrowing	30.999	38.391	42.948	44.765
Authorised limit - leases	0.000	0.250	0.275	0.330
Authorised limit - total external debt	30.999	38.641	43.223	45.095
Operational boundary - borrowing	28.999	36.391	40.948	42.765
Operational boundary - leases	0.000	0.225	0.252	0.302
Operational boundary - total external debt	28.999	36.616	41.200	43.067

- Further details on borrowing are in the Treasury Management Strategy.

5.9 **Treasury Investment Strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

5.10 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government, other local authorities, or selected high-quality banks, to minimise the risk of loss.

- Further details on treasury investments are in the treasury management strategy.

5.11 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are on pages 10 to 11 of the treasury management strategy.

5.12 **Governance:** Decisions on treasury management investment and borrowing are made daily, and are therefore delegated to the Assistant Chief Fire Officer (Finance and Resources) and Finance staff, who must act in line with the treasury management strategy and treasury management practices. Quarterly reports on treasury management activity are presented to the Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

6 Revenue Budget Implications

6.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from the levy received from constituent authorities and general government grants. The increased financing costs projected below for 2025/26 and 2026/27 could be lower if future interest rates fall below forecast levels.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Financing costs (£m)	2.424	2.600	2.737	3.454	4.081
Proportion of net revenue stream	6.15%	5.85%	5.62%	6.50%	7.47%

- Further details on the revenue implications of capital expenditure in Section 14 of the Medium Term Resource Strategy.

6.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Treasurer (S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable, because the plan has been reviewed and kept in line with previous capital expenditure and borrowing.

7 Knowledge and Skills

7.1 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer, Assistant Chief Fire Officer (Finance and Resources), and Head of Finance and Procurement are qualified accountants with many years' experience. In addition, there is consultation with facilities staff via a service level agreement, and the Environment and Climate Change Manager.

7.2 Use is also made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

APPENDIX 1

Minimum Revenue Provision Statement 2024/25

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For assets acquired by leases or any Private Finance Initiative (NWFRA has no PFI schemes), MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet on due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later. Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	**2024/25 Estimated MRP £**
General Fund	**32.350**	**1.885**

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 12**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur, Assistant Chief Fire Officer Finance and Resources**
Contact Officer	**Angharad Ellis (MIAA)**
Subject	**Internal Audit Update**

PURPOSE OF REPORT

1 The purpose of this report is to provide to Members an update of the work undertaken by North Wales Fire and Rescue Authority (the Authority)'s internal audit providers, MIAA, for the for the period 1 December 2023 to 29 February 2024.

EXECUTIVE SUMMARY

2 The Authority is required to put arrangements in place for the audit of systems of control. MIAA was appointed in June 2023 to provide internal audit services to the Authority.

3 The report contained within Appendix 1 provides an overview of the work undertaken during the 2023/24 financial year against the agreed internal audit plan. The report confirms the findings of reviews undertaken during the period 1 December 2023 to 29 February 2024.

4 The detailed reports relating to the reviews finalised are set out within appendices 2-5 and provide assurance on the existence and operation of key controls. Recommendations for further improvement have been agreed including timescales for implementation.

RECOMMENDATIONS

5 It is recommended that Members:

i) **Note the work undertaken by MIAA during 2023/24; and**
ii) **Note the work finalised between 1 December 2023 to 29 February 2024, including the agreed recommendations for further improvement.**

BACKGROUND

6 The Accounts and Audit (Wales) Regulations 2014 (the Regulations) require the Authority to make proper and effective arrangements for systems of internal control. This includes the arrangements for the management of risk and adequate and effective financial management.

7 The Regulations also require an adequate and effective internal audit of the systems of internal control, the findings of which must be reported to Members of the Authority. The Authority is required to approve the Statement of Internal Control annually.

8 The Authority appointed MIAA as its internal auditor at the Audit Committee meeting of the 18 June 2023. The Audit Plan was approved by the Audit Committee at its meeting of 18 September 2023.

INFORMATION

9 The report contained within Appendix 1 provides an overview of the work undertaken during 2023/24 and confirms that in the reporting period the following reviews were finalised:

- Key Financial Transaction Processing Controls
- National Fraud Initiative (NFI)
- Risk Management arrangements

10 The detailed reports are provided within appendices 2-4 and outline the areas subject to review and the key findings. The reviews have also highlighted recommendations for further work and improvement which have been agreed.

IMPLICATIONS

Wellbeing Objectives	The operation of financial systems that are properly controlled supports the delivery of the well-being objectives and longer-term sustainability of services.
Budget	Assurance on the existence and operation of internal controls supports the effective budget setting process.
Legal	An effective internal audit arrangement is a requirement of the Accounts and Audit (Wales) 2014 Regulations
Staffing	The review of key financial systems including payroll provide assurance that controls are present an that payments are in accordance with agreed policies and procedures.
Equalities/ Human Rights/ Welsh Language	The engagement lead with MIAA is bi-lingual and reports will be subject to normal translation processes.
Risks	The Statement of Assurance is submitted in compliance with the Accounts & Audit Regulations and the Public Sector Internal Audit Standards. Without such assurance from the Members would be unaware of the adequacy & effectiveness of the corporate governance, risk management & internal control arrangements and its associated ability to achieve its objectives. Any significant issues or weaknesses identified by Internal Audit would not be considered in the preparation of the Annual Governance Statement.

Internal Audit Progress Report

Audit Committee (March 2024)

North Wales Fire and Rescue Service

miaa

Contents

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Executive Summary

This report provides an update to the Audit Committee in respect of the progress made in against the Internal Audit Plan for 2023/24 and brings to your attention matters relevant to your responsibilities as members of the Audit Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are included within the Audit Committee papers. In addition, a consolidated follow up position is reported on a periodic basis to the Audit Committee.

This progress report covers the period 1st December to 29th February 2024.

3 Executive Summary

2023/24 Audit Reviews
The following reviews have been finalised: • IT – Cyber Organisational Controls (Moderate Assurance) Whilst the review identified some areas of good practice, there were also opportunities to strengthen controls in a number of key areas including cyber governance and culture, incident management, third-party management, documentation, risk and assurance reporting. • Key Financial Transactional Processing Controls review (Substantial Assurance) Overall, there was a good system of internal control in place designed to meet the system objectives, however some areas for improvement had been identified. There is comprehensive evidence that financial controls are operating robustly within the organisation, and areas of good practice were found in most cases of our sample testing and documentation review. • Risk Management – Core Controls (Not applicable) Our review identified a number of enhancements were required to the documentation of risk management processes. Roles and responsibilities in relation to risk management were not clearly defined, this included the risk escalation process through the governance structure. Current training provision should be reviewed and revised. Risk management training needs should be clearly identified for all staff and arrangements need clarification for monitoring compliance. Processes for ensuring risks are identified, consistently reviewed, scored, recorded and monitored across the organisation requires further development. Governance arrangements for the reporting of assurance against delegated risks are not clearly outlined. Although the strategic risks are

reported to the Fire Authority Executive Panel, processes for regular reporting to the Fire Authority on principal risks and assessments on the effectiveness of the organisation's risk management processes requires development.

- National Fraud Initiative (NFI) (Not applicable)

MIAA confirmed that all matches have been investigated and no instances of fraud or overpayment were identified. The exercise is now closed.

The full reports have been included separately in the Audit Committee papers.

Follow Up

We are in the process of following up on recommendations raised during 2023/24 and an update will be provided at the next Audit Committee in June 2024.

Audit Plan Changes

Audit Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.

There are no current proposals to amend the approved audit plan.

Added Value

Events

- Trauma Informed Leadership (23rd February 2024)
- Coaching & Mentoring: Say Less, Ask More! (14th March 2024)

Events are free to all clients and bookings can be made by clicking on the above link or via our website www.miaa.nhs.uk and click on Events.

Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that 'The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'

Below sets outs the overview of delivery for your Head of Internal Audit Opinion for 23/24:

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
Risk Management Core Controls	✓	Complete	N/A	March 2024
Key Financial Systems	✓	Complete	Substantial	March 2024
National Fraud Initiative (NFI)	N/A	Initial Briefing – Completed Full Report - Completed	N/A	December 2023 March 2024
Payroll & Attendance Management	✓	Completed	Substantial	December 2023
IT – Cyber Organisational Controls	✓	Completed	Moderate	March 2024
Follow Up				
Q1	N/A	Completed by Conwy Council Auditors	N/A	June 2023
Q4	N/A	In progress	N/A	June 2024

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
Contingency – Added Value Support & Guidance				
Policy and Procedure review Whistleblowing policy, Anti-fraud & Corruption and Gifts & Hospitality	N/A	Completed	N/A	N/A

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

Appendix B: Performance Indicators

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Reporting Regularity	Status	Summary
Delivery of the Head of Internal Audit Opinion (Progress against Plan)	Each Audit Committee	Green	No issues to report
Issue a Client Satisfaction Questionnaire following completion of every audit.	Every Final report includes a questionnaire for client feedback	Green	
Percentage of recommendations raised which are agreed	Each Audit Committee	Green	
Percentage of recommendations which are implemented	Follow Up will be reported twice per year	Green	
Qualified Staff	Annual	Green	MIAA have a highly qualified and diverse workforce which includes 75% qualified staff.
Quality	Annual	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics.

Appendix C: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Anne-marie Harrop

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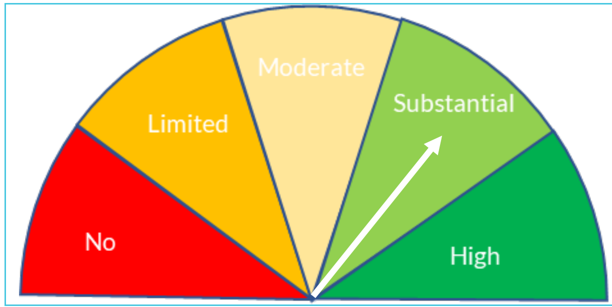
Key Financial Transactional Processing Controls Review

Assignment Report 2023/24 (Final)

North Wales Fire & Rescue Service

304NWFRS_2324_001

Overall Assurance Opinion


Moderate
Substantial
Limited
No
High

Contents

MIAA would like to thank all staff for their co-operation and assistance in completing this review.

This report has been prepared as commissioned by the organisation and is for your sole use. If you have any queries regarding this review please contact the Engagement Manager. To discuss any other issues then please contact the Director.

1 Executive Summary

Overall Audit Objective: The overall objective of the review was to provide assurance that the most significant key controls in the areas detailed in the scope, outlined in Appendix A, are appropriately designed and operating effectively in practice.

Scope Limitation: The controls reviewed related to the 2023-24 financial year to date.

Key Findings/Conclusion

Overall, there was a good system of internal control in place designed to meet the system objectives, however some areas for improvement had been identified.

The main areas of good practice related to Treasury Management. Testing of systems in place for Treasury management found the transmission of BACS payments was well controlled and BACS payment run totals are reconciled to control totals prior to authorisation. Our testing of Accounts Receivable further identified appropriate approval in place for debtor invoices and credit notes raised. In addition, our testing of General Ledger identified that journals had been appropriately approved ensuring adequate segregation of duties in place.

Supplier set up and supplier amendments should be enhanced to ensure a clear audit trail is retained for verification checks completed. Checks should be subject to periodic review by senior management.

Objectives Reviewed	RAG Rating
General Ledger	Green
Accounts Receivable	Green
Accounts Payable	Amber
Treasury Management	Green
Overall Assurance Rating	**Substantial**

Recommendations		
Risk Rating	Control Design	Operating Effectiveness
Critical		
High		
Medium		1
Low	3	
Total	**3**	**1**

Areas of Good Practice

General Ledger

- From October 2023, bank account reconciliations have been completed on a monthly basis. Completion is recorded on monthly report, which reconciles the trial balance against the bank statement balance.
- MIAA testing of a sample of 20 journals found segregated approval evidenced within the TechOne system.
- Audit review of the October 2023 Corporate Budget Variance report to the Budget Monitoring Procurement Committee confirmed the accurate reconciliation of the year-to-date actuals against budget, to the TechOne system.
- In March 2023, the service implemented Budget Monitoring and Procurement Committee meetings. The 2023/24 budget was presented in January 2023 and was subsequently approved by the Fire Authority in April 2023. This detailed the budgeted figures for the 2023/24 financial year. The initial financial planning assessment for 2024/25 was presented in October 2023.

Accounts Payable

- Standing Financial Regulations (SFRs) are in place and set out roles and responsibilities supported by an employee hierarchy maintained within the system. Our testing of a sample of 20 delegated limits set up in TechOne confirmed that they had been set up correctly in line with the SFRs.
- MIAA testing of a sample of 10 payments made with an approved purchase order, found adequate segregation of duties and approval was enforced within the TechOne system. 10 payments which had been made without a purchase order were found to have been appropriately approved in line with the financial limits set.

Accounts Receivable

- Audit testing of 10 sales invoices highlighted appropriate approval and supporting backing documentation had been retained.
- Audit review of 6 credit notes raised since April 2023 identified valid justification was provided for the cancellation of the debt, with appropriate authorisation evidenced.
- No long outstanding or high value debts were evidenced in the most recent aged debt analysis report.
- It was confirmed there have been no debt write offs in year. Write offs are reported annually to the Fire Rescue Authority (FRA).

Treasury Management

- BACS payments runs are processed weekly and are subject to approval by the Deputy Head of Finance and Procurement and the Head of Finance and Procurement.
- Segregation of duties is enforced when accessing the Barclays online portal to process payment runs.
- Staff set up on the Fire Service Bank Mandate were appropriate to their role and changes processed in March 2023 were appropriately authorised.

Key Findings – Issues Identified	
Medium	1.1 Audit trails were not retained to evidence supplier verification checks for 5 out of 10 supplier bank amendments tested. Segregation of duties was not enforced between processing and approval for all 10 supplier bank amendments tested. New supplier and supplier amendment documentation did not reference bank mandate anti-fraud guidance. At the time of the review, it was noted that the Procurement and Contract Manager was drafting guidance for verification check requirements. This should include procedure notes for new supplier set up and current supplier bank amendments. A periodic review of supplier bank amendments and new supplier set up was not evidenced.
Low	1.2 The service does not have a formalised aged debt policy. 1.3 Bank reconciliations checks should be evidenced to confirm who prepared the bank reconciliation and whether the bank reconciliation had been reviewed, to ensure adequate segregation of duties in place. At the time of the review (Goods Received Not yet Invoiced (GRNI) reconciliation were not undertaken. 1.4 The service does not routinely report a standard financial breakdown of actual income and expenditure, and cash including a net position.

2 Findings and Management Action

<table>
<tr><td colspan="2">**1. Accounts Payable - Supplier verification and Anti-fraud guidance**</td><td>**Risk Rating: Medium**</td></tr>
<tr><td colspan="3">Operating Effectiveness</td></tr>
<tr><td>**Key Finding** – Audit trails were not retained to evidence supplier verification checks for 5 out of 10 supplier bank amendments tested.

Segregation of duties was not enforced between processing and approval for all 10 supplier bank amendments tested.

New supplier and supplier amendment documentation did not reference bank mandate anti-fraud guidance.

At the time of the review, it was noted that the Procurement and Contract Manager is drafting guidance for verification check requirements. This should include procedure notes for new supplier set up and current supplier bank amendments.

A periodic review of supplier bank amendments and new supplier set up was not evidenced.</td><td>**Specific Risk** – The service is at greater risk of fraudulent activity.</td><td>**Recommendation** – The service should ensure the following:

Evidence of verification checks for all new suppliers and bank detail amendments is retained including the date of the check and the person (including role) spoken to, to strengthen existing controls in place. Verification checks should be subject to independent approval prior to payment runs.

New supplier and supplier amendment guidance once drafted, including procedure notes and relevant forms, references bank mandate anti-fraud guidance.

The service should consider the use of bank account verification and validation services such as Experian for all new suppliers and bank detail amendments.

A periodic new supplier and supplier amendment report is run at least quarterly for supervisory review, which evidences sample checking of any amendments completed and new supplier set ups.</td></tr>
<tr><td colspan="2">**Management Response** – Procurement and Contract Manager is drafting guidance for verification check requirements. We have started to complete a basic company search for all</td><td>Evidence to confirm implementation – Guidance procedures. Supplier bank amendment supporting documentation.</td></tr>
</table>

new supplier requests, and Finance Officers are aware of the requirement to document any amendments against the account. Reports to be created to show last activity (to inactivate any ‘unused’ accounts), and to monitor account amendments. Responsible Officer – Senior Finance Officers, Procurement & Contracts Manager Implementation Date – May 2024	

2. Accounts Receivable - Aged Debt Policy		**Risk Rating: Low**
Control Design		
Key Finding – The service does not have a formalised aged debt policy in place.	**Specific Risk** – A policy and sufficient audit trails may not be retained to support the service in pursuing debtors.	**Recommendation** – The service should ensure that a debt management policy/ procedure is formalised, which identifies timescales for debt follow up and escalation such as write offs and debt referrals.
Management Response – The Service is currently reviewing a large number of policies. In the meantime, invoices will continue to be raised accurately and promptly, using the approved financials system, with backing evidence included to support. Recovery action will be taken as appropriate and proportionate, with outstanding debts reported to the Audit Committee. (The majority of our debt is with other public sector bodies with whom we have SLA or other agreements in place. The remainder of the debt are small amounts relating to payroll overpayments, where payment plans are offered.) Responsible Officer – Senior Finance Officer, Deputy Head of Finance & Procurement Implementation Date – July 2024		Evidence to confirm implementation – Aged debt policy

<table>
<tr><th colspan="2">3. General Ledger - Control Account Reconciliations</th><th>Risk Rating: Low</th></tr>
<tr><td colspan="3">Control Design</td></tr>
<tr><td> Key Finding – Since October 2023, the service has implemented bank reconciliation reports. TechOne is updated on a regular basis with the cash balance from the bank statement. On a monthly basis a reconciliation report is run and a bank reconciliation is finalised. However, this does not confirm who prepared the bank reconciliation and whether the bank reconciliation had been reviewed, to ensure adequate segregation of duties in place. At the time of the review GRNI reconciliation were not undertaken. These should be undertaken on a routine basis by Finance to ensure that there are no old GRNIs. </td><td>Specific Risk – Balance sheet control accounts may not be formally reconciled and reviewed on a monthly basis.</td><td>Recommendation – Bank account reconciliations should be documented to confirm who has prepared and reviewed the reconciliations and to ensure that these have been undertaken in a timely manner. GRNI reconciliations should be undertaken on a routine basis by Finance to ensure that there are no old GRNIs.</td></tr>
<tr><td colspan="2"> Management Response – Bank reconciliations will continue to be completed by the Senior Finance Officer, with oversight from the Head of / Deputy Head of Finance and Procurement. Audit trail history is available within the financials system. The finance team will continue to encourage users to undertake regular housekeeping on the financials system, to remove any orders and receipts that are no longer required. Suppliers are requested to submit invoices electronically, direct to the AP team, quoting a valid PO reference to avoid unnecessary delays. Responsible Officer – Senior Finance Officer, Finance Officer Implementation Date – Not applicable </td><td>Evidence to confirm implementation – Bank reconciliations and audit trail history within the financial system</td></tr>
</table>

4. General Ledger - Financial Performance Reporting		Risk Rating: Low
Control Design		
Key Finding – The service does not routinely report a standard financial breakdown of actual (current) income and expenditure, and cash including a clear net position.	**Specific Risk** – Financial performance is not accurately represented in the governance arrangements.	**Recommendation –** Quarterly finance reports include a summary of the actual (current) income and expenditure, and cash including a clear net position.
Management Response – The Service will continue to provide a full year financial forecast, which is reported to both the Senior Leadership Team and FRA. Budget holders across the Service are able to access real time financial information relating to their budget areas through the Technology One financials system. This information is also shared at the Budget Monitoring and Procurement Committee meetings, and discussed as part of the regular budget monitoring meetings between budget holders and the Senior Finance Officer. Responsible Officer – Head of / Deputy Head of Finance and Procurement Implementation Date – Not applicable		Evidence to confirm implementation – Real time financial information through Technology One financials system.

Appendix A: Engagement Scope

Scope

The review focused on the key controls within the areas below to support the achievement of the organisation's key financial duties and to minimise the risk of error, misappropriation and fraud.

General Ledger

- Control and Suspense Accounts
- Journals
- Processes to support Board Reporting

Accounts Payable

- Purchase Order System Controls
- Non-Purchase Order Payments
- Goods Received Not Invoiced Monitoring and Reporting
- BACS Payment Run Controls
- New Supplier Bank Details/Supplier Bank Detail Changes

Accounts Receivable

- Raising of Debtors Accounts
- Use of Credit Notes
- Credit Control
- Aged Debt Reporting and Analysis
- Write-off of Debts

Treasury Management

- Cash Flow Reporting
- Control of Bank Accounts
- Urgent Payment Processes
- Bank Reconciliations

Scope Limitations

The controls reviewed related to the 2023-24 financial year to date.

IT system administration and management was not within the scope of this review.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system

Appendix B: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non- compliance with controls could/has resulted in failure to achieve the system objectives.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significantimpact on the achievement of the overall organisation objectives.
Medium	Control weakness that: • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Appendix C: Report Distribution

Name	Title
Helen MacArthur	Assistant Chief Fire Officer
Helen Howard	Head of Finance
Dawn Docx	Chief Fire Officer
Stewart Forshaw	Deputy Chief Fire Officer
Dafydd Edwards	Fire and Rescue Authority Treasurer

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Limitations

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

To:	Helen MacArthur – Assistant Chief Fire Officer Helen Howard – Head of Finance and Procurement Katie Owen – Deputy Head of Finance and Procurement
From:	Angharad Ellis – Senior Audit Manager Jeanette Sharp – Anti Fraud Specialist
Date:	February 2024
Re:	National Fraud Initiative 2022/23 – Final Report

1 Introduction and Background

This 'Briefing Note' provides a summary of North Wales Fire Authority's data matches reviewed, outstanding matches and any overpayments identified as part of the National Fraud Initiative round for 2022/23. It provides an update on the previous briefing paper which was issued in September 2023 when data matches were released.

2 Matches Actioned

This participation offers a range of matches (payroll and creditors) designed to target fraud as well as providing assurance on a range of corporate governance issues. In addition, the inclusion of your data helps identify overpayments and uncovers fraud at other participating bodies. The table below shows the matches reviewed and associated outcomes.

Anti-Fraud Specialist's Data Matching Information as of 13th February 2024.

Report Name	Priority Status*	Number of Matches received	Number of Matches reviewed	Matches still to be reviewed	Responsible person	Overpayments Identified (£)
66 – Payroll to Payroll	High	33	33	0	AFS	£0
68.1 – Payroll to Payroll – Phone Number	Low	6	6	0	AFS	£0
701 – Duplicate creditors by creditors name	High	1	1	0	AFS/Finance	£0
702 – Duplicate creditors by address details	High	2	2	0	AFS/Finance	£0
703 – Duplicate creditors by bank account number	High	3	3	0	AFS/Finance	£0
707 – Duplicate records by reference, amount and creditor reference	High	2	2	0	AFS/Finance	£0
708 – Duplicate records by invoice amount and creditor reference	High	46	46	0	AFS/Finance	£0

Report Name	Priority Status*	Number of Matches received	Number of Matches reviewed	Matches still to be reviewed	Responsible person	Overpayments Identified (£)
711 – Duplicate records by invoice number and amount but different creditor reference and name	High	1	1	0	AFS/Finance	£0
750 – Procurement – Payroll to companies house (Director)	High	1	1	0	AFS/Finance	£0
750 – Procurement – Payroll to companies house (Director)	High	1	1	0	AFS/Finance	£0

Certain reports have a flag (gold key) to note which reports the NFI team considers a priority.

3 Management Summary

MIAA confirm that all matches have been investigated and no instances of fraud or overpayment were identified. The exercise is now closed.

Risk Management - Core Controls Reviews

Assignment Report 2023/24 (Final)

North Wales Fire and Rescue Service

304NWFRS_2324_001

Contents

MIAA would like to thank all staff for their co-operation and assistance in completing this review.

This report has been prepared as commissioned by the organisation and is for your sole use. If you have any queries regarding this review, please contact the Engagement Manager. To discuss any other issues then please contact the Director

1.Executive Summary

Overall Audit Objective: To assess the core risk management controls in place to ensure that they have been adequately designed.

Scope Limitations: The review focussed on core risk management controls only with an emphasis on control design. Detailed testing of compliance with controls e.g., review of specific risks, risk registers etc. was not undertaken as part of this review. The focus of this review was to provide a position statement on the core controls in place for risk management with the focus on control design.

Findings/Conclusion:

At the time of the review, a Corporate Risk Management Policy was in the process of being drafted. The Service has a Risk Management Practitioner Guidelines document in place, however our review identified a number of enhancements were required to the documentation of risk management processes.

Roles and responsibilities in relation to risk management were not clearly defined, this included the risk escalation process through the governance structure.

Although some risk assessment training is provided, the current training provided should be reviewed and revised. Risk management training needs should be clearly identified for all staff and arrangements need clarification for monitoring compliance.

Processes for ensuring risks are identified, consistently reviewed, scored, recorded and monitored across the organisation requires further development. Areas for development include establishing a new Risk Management Group to review the Operational and Strategic Risk Registers on a regular basis. Our review identified a number of areas where the format of the operational risk register and strategic risk register requires development e.g. scoring of risks at gross, residual and target level.

Governance arrangements for the reporting of assurance against delegated risks are not clearly outlined.

Although the strategic risks are reported to the Fire Authority Executive Panel, processes for regular reporting to the Fire Authority on principal risks and assessments on the effectiveness of the organisation's risk management processes requires development.

2. Detailed Recommendations

Issue Identified	Recommendation	Agreed Action
<u>Governance and Leadership</u> At the time of the review, a Corporate Risk Management Policy was in the process of being drafted. The Service has a Risk Management Practitioner Guidelines document in place, however the guidelines document does not include the Executive Lead for risk management. The Service has not defined its risk appetite.	The Executive Lead for risk management should be clearly identified and included within the drafted Corporate Risk Management Policy. The Service should formally review it's risk appetite and this should be clearly defined and documented. These should be clearly linked to the strategic objectives of the organisation. The risk appetite should be used to inform the management of the strategic risk register.	As part of our Departmental Planning for 2024/25 we had already identified the need to enhance our risk management arrangements, including the development of the Service Risk Management Policy. As part of that work we will identify a strategic lead, identify our risk appetite, with clear links to the strategic objectives. This will include a review of how our strategic risk register is managed. **Responsible Officer:** Head of Planning, Performance and Transformation **Implementation Date:** 31.03.25
<u>Roles and Responsibilities</u> Although the guidelines document includes responsibility of the Fire Authority Executive Panel, Performance and Improvement Board, Budget Monitoring and Procurement Committee, Senior Leadership Team and Fire Authority in relation to risk management,	Roles and responsibilities for risk management at all levels, including all staff in general should be clearly defined within the drafted Corporate Risk Management Policy. The Corporate Risk Management Policy and other associated procedures should made available to all staff on the Hwb Tân intranet	As above, the Policy will identify relevant roles and responsibilities at all levels of the organisation and will be publicised and published on the Hwb Tân. **Responsible Officer:** Head of Planning, Performance and Transformation

Issue Identified	Recommendation	Agreed Action
the risk escalation process through the governance structure is not clearly defined (e.g. Risk Information Group, Operational Learning and Preparedness Committee, Health & Safety and Wellbeing Committee). Our review also identified that the roles and responsibilities of the Heads of Department are not clearly defined, they are responsible for their own departmental risks and assessing risks.	site.	**Implementation Date:** 31.03.25
Staff awareness and Training An E-learning module has been recently introduced (October 2023) on Health & Safety and Risk Management which includes an element covering risk assessments. Discussions with the Risks, Safety and Claims Manager identified that the current E-learning module is mandatory for management including Heads of Department (grey book only).	Current training should be enhanced to include the identification and consideration of emerging risks, assessment of risk, monitoring, control and mitigation of risks rather than focusing on the completion of risk assessments. Risk management training needs should be clearly identified for all staff, including a detailed training needs analysis and arrangements for monitoring compliance with training compliance should be defined. It is recommended that Risk Management training is provided to all staff.	Staff awareness and training will be considered by a newly formed Risk Group that will form part of the governance framework. **Responsible Officer:** Head of Planning, Performance and Transformation **Implementation Date:** Implementation of group by end of Q2 2024/25.

Issue Identified	Recommendation	Agreed Action
	Risk Management awareness training programme should be included within the draft Corporate Risk Management policy setting out all individuals who require Risk Management training (e.g. Heads of Departments, SLT members and employees where risk is relevant to their role) and the required frequency of the training (e.g. annual).	
<u>Risk Management Processes</u> Operational Risks are required to be reviewed on a quarterly basis by the Heads of Department. These are accumulated and the Operational Risk Register is updated. However, no further review of the Operational Risk Register is undertaken. Currently, the operational risk registers are held in the areas that have a departmental plan. The risk register should cover all areas within the organisation. In terms of the strategic risk register, these are reviewed by the Senior Leadership Team every 6 weeks and then reported to the Fire Authority Executive Panel which are reported every 6 months.	Consideration should be given to introducing a formal Risk Management Group to review the Operational and Strategic Risk Registers on a regular basis. Operational risks already identified on the risk register and the consideration of new risks should be undertaken on a regular basis. There should be a specified process for bringing significant risks to the attention of the Senior Leadership Team and Fire Authority Executive Panel more rapidly than required with agreed triggers for doing so as part of risk reporting.	As above, a new Risk Group will be established and report within the established governance framework. This will report to a parent committee, which in turn will report to the SLT and FRA as required. Terms of reference for the group will be developed to ensure risk in all areas of organisation business are incorporated into the risk register. **Responsible Officer:** Head of Planning, Performance and Transformation **Implementation Date:** Implementation of group by end of Q2 2024/25.

Issue Identified	Recommendation	Agreed Action
	Assurance should be provided that the operational risk register covers all areas within the organisation. Strategic risks should be reviewed more frequently, currently the strategic risk register is subject to review every 6 weeks by the Senior Leadership Team and every 6 months by the Fire Authority Executive Panel. The risk management processes in relation to the operational risk register and strategic risk register should be clearly defined within the draft Corporate Risk Management Policy.	
<u>Risk Registers</u> The Operational Risk Register and Strategic Risk Register includes the following: • Theme; • Risk number; • Date added; • Department;	The format of the operational risk register and strategic risk register requires enhancement as follows: • Scoring of risks at gross, residual and target level; • Controls in place to mitigate the identified risks; • Assurances in place; • Actions to be taken; and,	As part of the new Risk Group, and as the policy is developed, the aforementioned enhancements to the strategic risk register will be considered. **Responsible Officer:** Head of Planning, Performance and Transformation **Implementation Date:** Implementation of group by end of Q2 2024/25. Risk Register enhancements by no later than end of Q3.

Issue Identified	Recommendation	Agreed Action
• Risk Owner; • Risk Description; • Impact; • Likelihood score; • Impact score; • Current risk rating; • Overall risk classification e.g. High; • Mitigation/Response.	• A responsible officer and deadline dates should be allocated for each action.	
<u>Risk Reporting</u> We identified that the strategic risk register is subject to review by the Senior Leadership Team every 6 weeks and then reported to the Fire Authority Executive Panel which are reported every 6 months. However, it is recommended that assurance should be provided to the Fire Authority in relation to risk management on a routine basis.	There should be routine reports to the Fire Authority that provides a balanced assessment of the principal risks and the effectiveness of risk management.	As part of the policy development we will continue to report to FRA Executive Panel and consider how to report strategic risks to the full FRA. **Responsible Officer:** Head of Planning, Performance and Transformation **Implementation Date:** Implementation of group by end of Q2 2024/25. Reporting of Strategic Risk Register to full FRA to be defined by no later than end of Q3.

Follow-up

A follow-up exercise will be undertaken during 2024/25 to evaluate progress made in respect of issues raised. This will include obtaining documentary evidence to demonstrate that actions agreed as part of this review have been implemented.

Appendix A: Engagement Scope

Scope

The overall objective was to assess the core risk management controls in place to ensure that they have been adequately designed.

We reviewed the objective identified above in respect of the Risk Management - Core Controls through review of control design in relation to the following areas:

- Governance and leadership;
- Roles and responsibilities;
- Staff awareness and training;
- Risk management processes;
- Monitoring and Feedback; and
- Risk reporting.

The limitations to scope are as follows:

- The review focussed on core risk management controls only with an emphasis on control design. Detailed testing of compliance with controls e.g. reviews of specific risks, risk registers etc. was not undertaken as part of this review.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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Appendix B: Report Distribution

Name	Title	
Helen MacArthur	Assistant Chief Fire Officer	Draft/Final
Anthony Jones	Head of Planning, Performance and Transformation	Draft/Final
Gary Ashton	Corporate Planning and Performance Manager	Draft/Final

Angharad Ellis
Senior Audit Manager
Tel: 07469378328
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Limitations

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 13**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur, Assistant Chief Fire Officer Finance and Resources**
Contact Officer	**Angharad Ellis (MIAA)**
Subject	**Internal Audit Plan 2024/25**

PURPOSE OF REPORT

1 The purpose of this report is to present to Members the proposed internal audit plan for the 2024/25 financial year.

EXECUTIVE SUMMARY

2 North Wales Fire and Rescue Authority (the Authority) is required to put arrangements in place for the audit of systems of control. This includes the management of risk and adequate and effective financial management.

3 The existence and operation of appropriate internal controls underpins the Authority's governance arrangements and the Authority is required to approve an annual Statement of Internal Control. In approving the Statement of Internal Control, the Authority relies on the work of internal audit and therefore, the internal audit arrangements must be sufficient to provide assurance.

4 The Authority's internal audit function is provided by Mersey Internal Audit Agency (MIAA). Internal audit reviews are planned and prioritised using a risk-based approach ensuring that key controls are reviewed on a three year cycle. The proposed approach for 2024/25 is set out within Appendix 1.

RECOMMENDATIONS

5 It is recommended that Members:

i) Approve the proposed audit work programme for 2024/25 and endorse the three-year strategic plan.

BACKGROUND

6 The presence and operation of effective controls is critical to the overall governance arrangements and enables the Authority to discharge its responsibilities in relation to the Statement of Internal Control and the Annual Governance Statement.

7 The Authority's internal auditor, MIAA, were appointed in June 2023. The work of MIAA is governed by professional standards ensuring a systematic and robust approach.

INFORMATION

8 The detailed work undertaken by MIAA is planned and prioritised based on risk assessments which consider local and national risks. The three-year strategic plan is developed to ensure that key areas of control are reviewed on a three-year cycle as set out within Appendix 1.

9 The detailed plan for 2024/25 is contained within Appendix 1and confirms the proposed audit programme.

IMPLICATIONS

Wellbeing Objectives	The proper control and operation of financial and other key systems supports the delivery of the well-being objectives and longer-term sustainability of services.
Budget	Assurance on the existence and operation of internal controls supports the effective budget setting and monitoring processes and provides assurances that resources are being used effectively.
Legal	An effective internal audit arrangement is a requirement of the Accounts and Audit (Wales) 2014 Regulations
Staffing	The review of key systems provides assurance that controls are present and operating in accordance with agreed policies and procedures.
Equalities/ Human Rights/ Welsh Language	The engagement lead with MIAA is bi-lingual and reports will be subject to normal translation processes.
Risks	The work of MIAA confirms that risks are being managed and/or makes recommendations for improvement.

North Wales Fire and Rescue Service

Draft Internal Audit Plan 2024/2025

Contents

Your Internal Audit Team

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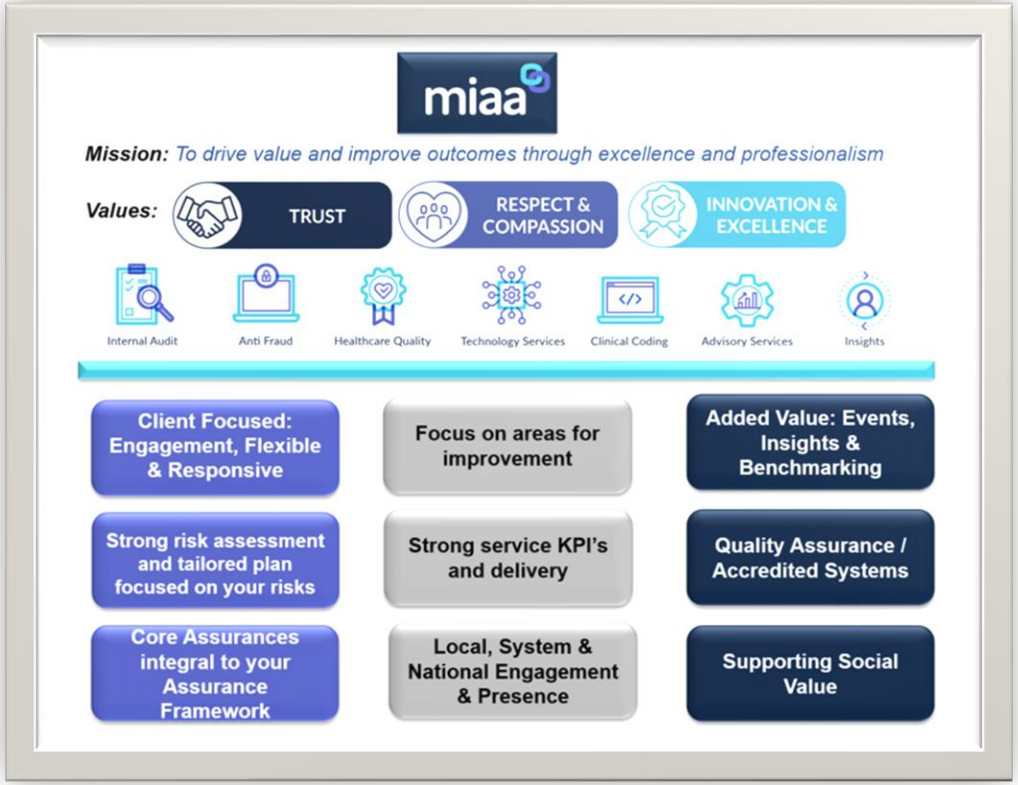
1 Executive Summary

1.1 Working in partnership with you

MIAA Assurance, providing cost effective assurance, insight and foresight. These services are delivered in partnership with you to ensure they are personal and responsive, ensuring the best possible customer experience.



1.2 Your Risk Assessment

A strong risk assessment underpins the Internal Audit Plan. This has focused upon the Fire and Rescue National Framework 2016, your Corporate Plan 2021 – 2024, Medium Term Financial Plan, previous audit plan coverage and analysis of risk. These are summarised in Appendix A.

1.3 Your Internal Audit Plan

Your Internal Audit service includes core assurances, national and regional risk areas and strategic risks from your Risk Register. The draft plan is based on an initial risk assessment and provides indicative coverage for the organisation. The plan will remain flexible to allow for responses to emerging challenges that the organisation may face.

Your operational annual plan in Section 5 forms part of the organisation's three year Strategic Plan (shown in Appendix A). This will be reviewed as part of our ongoing risk assessment process to ensure that it remains focused on the organisation's key risks and challenges and adds value.

We will actively engage across the organisation to ensure we have a full and detailed understanding of your risks and can ensure we focus our work to best effect.

MIAA insights, briefings and events will be integral to your plan.

Your fees for 2024/25 are £23,450.

7 Operational Internal Audit Plan 24/25

Review & Scope	Risk / Rationale	Planned Delivery	Lead
Governance, Risk & Legality			
Risk Management: Following the Risk Management Core Controls review undertaken in 2023/24, we will assess the developed risk management arrangements including the systems in place to record risk and the processes in place to ensure that significant risks are escalated to the strategic risk register.	**HOIA requirement**	Q4	Deputy Chief Fire Officer
People			
Whole Time Rostering/Duty System: To evaluate the effectiveness of the systems and processes in place to manage and control working time arrangements for Whole-time Equivalents (WTE). This review will also consider Time Off In Lieu (TOIL).	**Core Assurance/ Risk Assessment**	Q2	Deputy Chief Fire Officer
Finance & Sustainability			
Key Financial Systems: Annual evaluation of the key financial controls, including General Ledger, Income, Debtors, Treasury , Budgetary Control and Reporting .	**Core Assurance**	Q3	Assistant Chief Fire Officer
Procurement: To evaluate the effectiveness of the procurement processes in place including the use of tenders and waivers.	**Core Assurance/ Risk Assessment**	Q1	Assistant Chief Fire Officer
Attendance at Budget Scrutiny meetings: To attend and provide oversight at the Budget Scrutiny meetings (as required)	**Management request**	Q1 – Q4	Assistant Chief Fire Officer
Follow up & Contingency			
Follow up and Contingency	**PSIAS requirement**	Q1 – Q4	Assistant Chief Fire Officer
Planning & Reporting			
Planning, Management, Reporting & Meetings	**PSIAS requirement**	Q1 – Q4	Assistant Chief Fire Officer

Appendix A – 3 Year Strategic Internal Audit Plan

We have mapped your strategic objectives and strategic risks to the 3 Year Strategic Internal Audit Plan. This will be reviewed as part of the risk assessment process to ensure that it remains focused on the organisation's key risks and challenges and adds value.

Strategic Objectives
To work towards making improvements to the health, safety and well-being of people in North Wales.
To continue to work collaboratively to help communities improve their resilience.
To operate as effectively and efficiently as possible , making the best use of resources available.
To continue to identify opportunities to encourage greater engagement with people, communities, staff and stakeholders.
To maintain a suitably diverse, resilient , skilled, professional and flexible workforce.
To develop ways of becoming more environmentally conscious in order to minimise the impact of our activity on the environment.
To ensure that social value and sustainability are consider including during procurement processes.

Review Area mapped to objectives

23/24	24/25	25/26
Payroll and Absence Management	Attendance at Budget Scrutiny meetings	Budget Planning and Efficiency
Cyber Organisational Controls	Whole Time Rostering	Partnerships and Collaboration
National Fraud Initiative	Procurement	IT Strategy
Key Financial Controls	Key Financial Controls	Key Financial Controls
Risk Management Core Controls	Risk Management Framework	Risk Management Core Controls

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Limitations

Our work does not provide absolute assurance that material errors, loss or fraud do not exist. Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

miaa

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 14**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur, Assistant Chief Fire Officer Finance and Resources**
Contact Officer	**Helen MacArthur**
Subject	**Audit Wales – Annual Audit Summary 2023**

PURPOSE OF REPORT

1 To provide Members of the North Wales Fire and Rescue Authority (the Authority) with the Annual Audit Summary 2023 produced by Audit Wales.

EXECUTIVE SUMMARY

2 The Auditor General is the statutory external auditor for most of the public sector in Wales, including the Authority. The Auditor General's role includes examining how public bodies manage and spend public money, including how they achieve value in the delivery of public services.

3 The Annual Audit Summary for 2023 includes confirmation of the work undertaken by Audit Wales and includes the audit of the financial statements and annual governance statement, certification on the Authority's improvement obligations and a local project on the Authority's arrangements for responding to commercial automatic fire alarms.

4 The matters contained within the Annual Audit Summary 2023 have all previously been reported to the Authority.

RECOMMENDATIONS

5 Members are asked to:

i) note the annual audit summary.

IMPLICATIONS

Wellbeing Objectives	The work undertaken on behalf of the Auditor General provides an objective assessment of the Authority's performance.
Budget	The work undertaken includes consideration of value for money.
Legal	The Auditor General is the statutory auditor for Wales
Staffing	None
Equalities/ Human Rights/Welsh Language	None
Risks and Uncertainties	The objective assessment in a number of key areas supports the Authority's work to identify and manage risk.

Archwilio Cymru
Audit Wales

North Wales Fire and Rescue Authority

Annual Audit Summary 2023

This is our audit summary for North Wales Fire and Rescue Authority.

It shows the work completed since the last Annual Audit Summary, which was issued in February 2023. Our audit summary forms part of the Auditor General for Wales' duties.

More information about these duties can be found on our website.

About the Fire and Rescue Authority

Key facts

Fire and Rescue Authorities (FRAs) consist of nominated elected members, representing the local authorities across the FRA area as a whole.

North Wales FRA is made up of 28 councillors who represent their constituent authorities and the following political parties:

- Conservative: 3
- Independent: 11
- Labour: 6
- Plaid Cymru: 8

The FRA spent £38.64 million on providing services during 2022-23 which is a 4.97% decrease on 2021-22[1].

As at 31 March 2023, the FRA had £1.48 million of general fund reserves and £6.22 million in earmarked reserves.

FRAs have a statutory obligation under the Fire and Rescue Services Act 2004 to maintain a Fire and Rescue Service capable of dealing effectively with all calls for assistance in the case of fire and other emergencies.

The Welsh Government has overarching responsibility for determining policy on FRAs. At a local level, FRAs must meet the requirements of the Local Government (Wales) Measure 2009 and the Well-being of Future Generations (Wales) Act 2015, as well as the Welsh National Framework for Fire and Rescue Services.

[1] Source: 2022-23 Statement of Accounts

Key facts

Most of the funding for the three FRAs in Wales is received by way of a levy from the local unitary authorities within their area. The contribution is based on population numbers.

The Auditor General's duties

We completed work during 2022-23 to meet the following duties

- **Audit of Accounts**

  Each year the Auditor General audits the Authority's financial statements to make sure that public money is being properly accounted for.

- **Continuous improvement**

  The Authority also has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Authority has met these requirements.

- **Value for money**

  The Auditor General examines whether the Authority has put in place arrangements to get value for money for the resources it uses, and he has to be satisfied that it has done this.

- **Sustainable development principle**

  Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

To meet the Auditor General's duties we complete specific projects. We take the findings of our audit work into account when assessing whether the Authority has put in place arrangements to secure value for money. Our findings and conclusions are summarised below.

What we found

Audit of North Wales Fire and Rescue Authority's 2022-23 Accounts

Each year we audit the Authority's financial statements.

For 2022-23:

- the draft statements were presented for audit on 3 July 2023. This was before the deadline of 31 July 2023 set by Welsh Government.
- the draft statements presented for audit were of high quality.
- the Auditor General gave an unqualified true and fair opinion on the Authority's financial statements on 24 October 2023, before the deadline agreed with Welsh Government of 30 November 2023. The audit was delivered later than in previous years mainly due to the impact of new auditing standard requirements. These were covered in our audit plan considered by the Audit Committee on 18 September 2023.
- the Authority's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.
- a small number of changes were made to the Authority's financial statements arising from our audit work, which were reported to the Fire and Rescue Authority meeting in our Audit of Financial Statements Report in October 2023.
- the Auditor General issued the certificate confirming that the audit of accounts for 2022-23 has been completed.

Continuous improvement

The Auditor General certified that the Authority has met its legal duties for improvement planning and reporting and believes that it is likely to meet the requirements of the Local Government (Wales) Measure 2009 during 2022-23.

Local project - False Fire Alarm Reduction

In October 2023 we published our report on reducing false fire alarms within the Authority. We concluded that Authority has significantly reduced the number of non-domestic false fire alarms it attends but needs to address financial risks and capacity issues to ensure its risk-based approach is sustainable. Our findings across the three Welsh Fire Authorities were published in a national report in October 2023.

Local government studies

As well as local work at each authority, each year we also carry out studies across the local government sector to make recommendations for improving value for money. Since the last annual improvement report, we have published the following reports which may be useful to the Authority, which can be found on our website.

- Springing Forward – Lessons from our work on workforce and assets
- 'Cracks in the Foundations' – Building Safety in Wales

Planned work for 2023-24

We also looked at the key challenges and opportunities facing the Authority. These could have an effect on the Authority's ability to meet its legal obligations in relation to the sustainable development principle, continuous improvement, and the use of its resources.

Our planned work for 2023-24 includes:

- Targeted High Risk Prevention

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the Senedd.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, fire and rescue authorities, national parks, and community councils. He also conducts local government value for money studies, assesses compliance with the remaining requirements of the Local Government (Wales) Measure 2009 and may undertake special inspections under the Local Government and Elections (Wales) Act 2021.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Senedd Commission, and National Health Service bodies in Wales.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions, as described above. Audit Wales is not a legal entity.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.