Agenda Item No. 707

EAST SUSSEX FIRE AUTHORITY

Date:	**7 February 2013**
By:	**Treasurer**
Title:	**Fire Authority Treasury Management Strategy for 2013/14**
Purpose of report:	**To determine the Fire Authority's authorised borrowing limit, to adopt the prudential indicators and treasury management indicators, to approve the Minimum Revenue Provision Statement and to agree the treasury management strategy and policy statement for 2013/14.**

RECOMMENDATION: That the Fire Authority:

a) determines that, for 2013/14, the authorised limit for borrowing shall be £13,987,000;
b) adopts the prudential indicators and treasury management indicators within the report (as set out in section 6);
c) approves the Minimum Revenue Provision Statement for 2013/14 (as set out in section 7); and
d) agrees the treasury management strategy and policy statement for 2013/14 (section 9).

MAIN ISSUE

Under the Local Government Act 2003 and the Prudential Code for Capital Finance 2004, the Fire Authority is required to determine its authorised borrowing limit, to adopt prudential indicators and treasury management indicators, to approve the Minimum Revenue Provision Statement and to agree the treasury management strategy and policy statement for 2013/14, details of which are set out in the supporting information.

Duncan Savage
TREASURER
22 January 2013

Background Papers

Prudential Code for Capital Finance 2004

Fire Authority
2 February 2012 – Agenda Item 624: Treasury Management Strategy for 2012/13
7 June 2012 – Agenda Item 644 Treasury Management – Stewardship report for 2011/12

Policy & Resources Panel
15 November 2012 – Agenda Item No 849: Half yearly report for 2012/13

CIPFA Treasury Management in the Public Services (updated in November 2009)
Code of Practice and cross sectional guidance notes
Local Government Act 2003
Local Government Investments – Guidance from the former Office of the Deputy Prime Minister
CIPFA Prudential Code in November 2009
Communities and Local Government – Changes in the Capital Finance System

Treasury Management Strategy for 2013/14

1. Background information

1.1 The Fire Authority's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

a) The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
b) Statutory Instrument (SI) 3146 2003 develops the controls and powers within the Act;
c) The SI requires the Fire Authority to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;
d) Under the Act the former Office of the Deputy Prime Minister has issued Investment Guidance to structure and regulate the Authority's investment activities.

1.2 The Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken on a prudent, affordable and sustainable basis and its treasury management practices demonstrate a low risk approach.

1.3 The Code requires the regular reporting of treasury management activities to:

a) Forecast the likely activity for the forthcoming year (in this report on the Annual Treasury Strategy);
b) Review actual activity for the preceding year (the Stewardship report);
c) Review actual mid-year activity (the Half Year review) ; and
d) Report changes to our Strategy (when required).

1.4 The Fire Authority receives a report in February each year (this report) which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses.

2. Actual Strategy agreed for the current year 2012/13

2.1 At its meeting on 2 February 2012, the Fire Authority agreed its treasury management strategy for 2012/13, taking into account the economic scene, including forecast levels of interest rates. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Fire Authority.

2.2 The Fire Authority has always adopted a prudent approach on its investment strategy and, in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Fire Authority is able to invest in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

2.3 When the strategy for 2012/13 was drawn up in February of last year, the money markets were still volatile with banks reluctant to lend to each other. In this climate, ensuring the security of investments continues to be difficult and extreme caution has to be taken on where surplus funds can be invested.

2.4 At the same time, the Treasury Management Policy Statement was agreed for 2012/13 as set out below.

East Sussex Fire Authority defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions, the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Fire Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

Borrowing

2.5 The Fire Authority has had a strategy to borrow to support the Capital Programme and lend out other cash (rather than using internal borrowing). Historically, this had meant that the interest rate earned on cash balances was higher than the interest rate paid on loans from the Public Works Loans Board (PWLB). In the current financial climate, this interest rate differential had been removed. In the short term, therefore, it was agreed that, although the limits would allow new borrowing, external borrowing would only take place if the rates available were so low that the long-term benefits significantly exceeded the short term cost. In practice, no new PWLB borrowing had taken place since January 2008.

2.6 Our opportunities to reschedule debt had been monitored, but have not arisen as yet. The PWLB increased all of its lending rates by 1% in October 2010 (the Government's Comprehensive Spending Review). However, it did not increase the rate of interest used for repaying debt so that not only had the cost of our future borrowing increased, but the opportunity to restructure our debt when market conditions allow had been significantly reduced.

Investment

2.7 When the strategy was agreed in February last year, the advice given to us by our advisors, Sector, was that short term rates were expected to remain on hold for a considerable time. Economic forecasting remained troublesome with so many external influences weighing on the UK. There was consensus among analysts that the economy would remain weak and, whilst there was still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty included:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc, or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism, i.e. an escalation of the currency war/trade dispute between the US and China.

2.8 The overall balance of risks remained weighted to the downside. Lack of economic growth, both domestically and overseas, would impact on confidence, putting upward pressure on unemployment. It would also further knock levels of demand, which would bring the threat of recession back into focus.

2.9 Sector believed that the longer run trend was for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

2.10 Given the weak outlook for economic growth, Sector saw the prospects for any interest rate changes before mid-2013 as very limited. There was potential for the start of Bank Rate increases to be even further delayed if growth disappointed.

2.11 The strategy going forward was to continue with the policy of ensuring minimum risk, but will also need to deliver secure investment income of at least bank rate on the Fire Authority's cash balances. (The actual target was bank rate plus 0.4%).

2.12 As will be clear from the events globally and nationally over the last three years, it would be impossible in practical terms to eliminate all credit risk. The Fire Authority seeks to be as prudent as possible.

Strategy Agreed for 2012/13

2.13 The strategy ensured that, in the economic climate, a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Authority's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The strategy continued with this prudent approach and no change was proposed from the revised strategy for 2011/12.

2.14 It was also recognised that movements within the money markets happen with no notice and the Treasurer may have to amend this strategy in order to safeguard Fire Authority funds. As in the past, any such actions will be reported to the next Fire Authority meeting.

2.15 It was not expected that any new external borrowing would be undertaken in 2012/13; however, the limits set out in the Authorised Limit allowed such borrowing. External borrowing will only take place if the rates available were so low that the long term benefits will significantly exceed the short term cost.

2.16 Opportunities for cost effective repayment of existing debt and restructuring opportunities will be constantly monitored and will be taken if and when they emerge.

2.17 The Fire Authority balances would be invested in line with the following specific policy:

(A) UK Investment Without Government Equity Holding

Up to a maximum of £3m deposited up to a period of up to one year with any of the following:

The then current policy stance was overnight, but the policy allowed changes to reflect market conditions if and when they improved.

Bank / Fund / Local Authority
Barclays
Santander UK
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated) which invest in Government Securities only
Individual Cash Type Money Market Funds (AAA rated)
Another Local Authority (equivalent to the low risk of investing with the Government but not formally rated)

Only banks which meet the following minimum rating criteria for at least two of the designated agencies to be used:

Ratings Agency	**Long Term**	**Short Term**
Fitch	AA-	F1+
Moody	AA3	P-1
Standards and Poors	AA-	A-1+

(B) UK Investment With Government Equity Holding of minimum of 30%

30% was taken as a minimum level of significant associated company influence. In practice, it serves as a trigger to formally review our position.

Up to a maximum of £3m deposited up to a period of up to three months with the following:

The then current policy stance was overnight, but the policy allowed changes to reflect market conditions if and when they improved:

Bank
Lloyds/HBOS
Nat West/RBS

Only banks which met the following minimum rating criteria for at least two of the designated agencies were to be used. The banks would not be used if the UK Sovereign rating falls below AAA:

Ratings Agency	Long Term	Short Term
Fitch	A	F1
Moody	A2	P-1
Standards and Poors	A	A-1

The policy retained the ability to revert to some, or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tightened.

2.18 Additional requirements under the Code of Practice require the Fire Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information has been, and will continue to be, applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example, Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model, as well as media updates, etc.) would be assessed when comparing the relative security of differing investment counterparties.

3. Formulating a Strategy for 2013/14

The Treasury management activity in the current year (2012/13) to date

Borrowing

3.1 The conditions and market for borrowing have not changed in the current year from when the original strategy was drawn up. No restructuring opportunities have arisen.

3.2 The Department of Communities and Local Government asked local authorities to complete a return to enable them to benefit from a small reduction in all of the PWLB rates for new loans. The PWLB "certainty rate", as it has been named, has reduced PWLB borrowing rates by 0.20% for most local authorities in November 2012. A return has been submitted and approved but, despite this small reduction, it will be unlikely that the Fire Authority will be borrowing.

Investment

3.3 Base interest rate has stayed at 0.5% in 2012/13 to date. The rate is the lowest ever and has remained unchanged for the longest period on record. The last change was on 5th March 2009.

3.4 The strategy for 2012/13, agreed in February 2012, continued the prudent approach and ensured that all investments were only to the highest quality rated banks and only up to a period of one year. No changes to this Strategy have been required, but a more prudent approach has been adopted because of the uncertainties in the market as exemplified in paragraph 3.6. Investments in all banks continued to be on call (overnight only).

3.5 Additional market information including Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model, as well as media updates, etc., have been used to assess the relative security of differing investment counterparties.

3.6 The return on our investments reduced from June because of the transfer of our investment in Money Market Funds (MMFs) from 'Cash Type' to 'Treasury Type', which has funds in Government Securities only and into the safe haven of the Government's Debt Management Account Deposit Facility (DMADF). The interest rate received on all MMFs has reduced during the year and the 'Treasury Type' MMFs and the DMADF rates received are less than received on 'Cash Type' MMFs. The reason for these changes was the continued major concerns in the market due to the problems with European countries and the Euro. The changes to the investments held comply with our Treasury Management Strategy and this Authority has continued to follow an extremely prudent approach with security and liquidity as the main criteria before yield.

<u>Comment from Sector (our Treasury advisors) on the outlook for 2013/14</u>

Economic Background

3.7 The economic growth of most countries in the world economy has been partly depressed by the continuing Eurozone debt crisis. This has impacted on the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. The Eurozone sovereign debt crisis has abated, somewhat, following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout. Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this 'solution' to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

3.8 The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra-low interest rates into 2015. Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

3.9 The UK Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence level is recovering or that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in the third quarter of 2012 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

3.10 Economic growth has basically flat-lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the Monetary Policy Committee (MPC) to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October, although it is expected to fall back to reach the 2% target level within the two year horizon.

3.11 The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Forward view

3.12 Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and, whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate and become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession.

The focus of so many consumers, corporate companies and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields
- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held
- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth
- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's AAA rating at the start of 2013).

4. **Proposed Strategy for 2013/14**

4.1 In the current economic climate, it is essential that a prudent approach is maintained. This will be achieved through investing with selected banks and funds which meet the Fire Authority's rating criteria. The emphasis will continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The strategy for 2013/14 must continue with this prudent approach and only small changes are proposed to the strategy for 2012/13 agreed by the Fire Authority a year ago. The details of the changes are set out in paragraphs 4.5 and 4.6 below.

4.2 It is also important to recognise that movements within the money markets can happen with no notice and the Treasurer may have to amend this strategy in order to safeguard Fire Authority funds. As in the past, any such actions will be reported to the next Fire Authority meeting.

4.3 It is not expected that any new external borrowing will be undertaken in the next 15 months.

4.4 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored and will be taken if and when they emerge.

4.5 The UK currently has an AAA sovereign rating, but it is possible that this rating could be downgraded by one, or more, rating agencies in the future if our economy struggles to recover. To ensure that the Fire Authority can continue to invest with UK institutions in the event of this happening, the reference to the sovereign rating criteria of AAA on our UK Investment with Government Equity Holding of minimum of 30% has been removed.

4.6 The original strategy for 2012/13 continued with the policy of ensuring minimum risk but will also need to deliver secure investment income of at least bank rate (the actual target was bank base rate plus 0.4%) on the Fire Authority's cash balances. The revised target of bank base rate for 2013/14 reflects the lower rates available in the market on the change to more prudent investments. There has also been a reduction in interest paid as a direct result of the Bank of England and HM Treasury's Funding for Lending scheme which has given additional deposits to banks and cut their demand for funds from other sources(such as local authorities). This has been taken into account in formulating the budget.

4.7 The Fire Authority balances would be invested in line with the following specific policy:

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The then current policy stance was overnight but the policy allowed changes to reflect market conditions if and when they improved.

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30% was taken as a minimum level of significant associated company influence. In practice, it serves as a trigger to formally review our position.

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Ratings Agency	Long Term	Short Term
Fitch	A	F1
Moody	A2	P-1
Standards and Poors	A	A-1

The policy retained the ability to revert to some, or even extensive, use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tightened.

4.8 Additional requirements under the Code of Practice require the Fire Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information has been, and will continue to be, applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model as well as media updates, etc.) would be assessed when comparing the relative security of differing investment counterparties.

4.9 All Money Market Funds used will be monitored and chosen by the size of fund, rating agency recommendation, exposure to other Countries (Sovereign debt), weighted average maturity and weighted average life of fund investment and counterparty quality.

4.10 All of the investments will be classified as Specified Investments. These investments are sterling investments of not more than one-year maturity with institutions we deem to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These are considered low risk assets where the possibility of loss of principal or investment income is small. The Fire Authority does not have any Non Specified Investments which are ones of more than one-year maturity or with institutions which have a lesser credit quality.

5. Authorised Limit for borrowing in 2013/14

5.1 The Government introduced a new system for capital finance from 1st April 2004. An objective of this new system was to move away from controlling borrowing through the issue of borrowing approvals, towards a system of self-regulation. This is based on a code of practice developed by CIPFA – the Prudential Code.

5.2 The Authorised Limit for borrowing determined for 2013/14 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

5.3 The Prudential Code for Capital Finance allows capital borrowing to be planned over the same timescale as capital spending. The code states:

"In order to ensure that, over the medium term, net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

5.4 The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2013/14 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2013/14 and next two financial years) it is considered prudent at this stage to base the limits upon 2 years. This approach was agreed in a previous strategy report to the Fire Authority in June 2004 and has since worked well.

5.5 For 2013/14, it is estimated that the authorised borrowing limit is £13.987m (see table 6.2).

6. Prudential indicators and Treasury Management indicators

6.1 There are self-imposed prudential and Treasury Management indicators that are set on an annual basis and monitored. The indicators which relate to treasury management are included below:

- i Authorised limit for borrowing (see paragraph 6.2, 6.3 6.4 and 6.5 below)
- ii Interest rate exposure (see paragraph 6.6 below)
- iii Maturity structure of debt (see paragraph 6.7 below)
- iv Compliance with the treasury management code of practice (see paragraph 6.8 below)
- v Maturity structure of investments (see paragraph 6.9 below)

6.2 Authorised limit for borrowing

	2012/13 Likely actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Opening CFR	**11,059**	**10,734**	**11,098**	**11,099**
Capital Investment	2,823	4,699	2,910	1,080
Sources of Finance	(2,149)	(3,906)	(2,465)	(785)
Net financing	**674**	**793**	**445**	**295**
MRP	(419)	(429)	(444)	(444)
MRP – Finance Leases	(186)	-	-	-
Total MRP	**(605)**	**(429)**	**(444)**	**(444)**
Closing CFR	**11,128**	**11,098**	**11,099**	**10,950**
Less Finance lease liability	(394)	-	-	-
Underlying borrowing requirement	**10,734**	**11,098**	**11,099**	**10,950**
Advance borrowing allowed (net borrowing for next year)		445	295	439
Operational boundary	****11,550**	**11,543**	**11,394**	**11,389**
Short term	2,432	2,444	2,456	2,468
Authorised limit	****13,982**	**13,987**	**13,850**	**13,857**
Actual borrowing to date	**11,123**			
Borrowed in advance of need*	389			

*Underlying borrowing requirement less actual borrowing to date
** Operational boundary and Authorised limit agreed in 2012/13 Strategy report

6.3 Borrowing must not exceed the authorised limit in any year and it is below the estimated authorised limit set for 2012/13 and 2013/14.

6.4 The proposed operational boundary for borrowing is based on the same estimates as the authorised limit. It reflects directly the authorised borrowing limit estimate, but without the additional amount for short term borrowing included to allow, for example, for unusual cash movements. The operational boundary represents a key management tool for in-year monitoring and long term borrowing control.

6.5 These authorised limits are consistent with the Fire Authority's current commitments, existing plans and the proposals for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, plus sufficient headroom (short term borrowing) over and above this to allow for day to day operational management, for example, unusual cash movements or late receipt of income.

6.6 Interest rate exposure

The Fire Authority will continue the current practice of seeking competitive fixed interest rate exposure for borrowing. It is proposed to continue to set limits on our variable rate exposure in case that becomes a more effective approach. The percentages of the upper and lower limits for fixed and variable rate exposure reflect the unlikely situation that all new borrowing from next year will be at variable rates.

Borrowing	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	100%	100%	100%	100%
Variable Rate Exposure				
Upper Limit	0%	0%	0%	0%
Lower Limit	0%	0%	0%	0%
Lending				
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%
Variable Rate Exposure				
Upper Limit	0%	100%	100%	100%
Lower Limit	0%	0%	0%	0%
Borrowing and Lending combined				
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	38%	38%	38%
Variable Rate Exposure				
Upper Limit	0%	62%	62%	62%
Lower Limit	0%	0%	0%	0%

6.7 Maturity structure of debt

The Fire Authority has set upper and lower limits for the maturity structure of its borrowings as follows:

	Lower Limit	Upper Limit	Current
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	0%
24 months and within 5 years	0%	60%	3%
5 years and within 10 years	0%	80%	4%
10 years and within 20 years	0%	80%	44%
20 years and within 30 years	0%	80%	17%
30 years and within 40 years	0%	80%	18%
Over 40 years	0%	80%	13%

6.8 Compliance with the Treasury Management Code of Practice

East Sussex Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

6.9 Maturity structure of investments

The Authority does not intend to invest any sums for more than one year.

7. Minimum revenue provision statement

The Fire Authority's Borrowing Need (the Capital Financing Requirement)

7.1 The prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

7.2 The Fire Authority is asked to approve the Capital Finance Requirement projections below:

£000	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total CFR	**10,734**	**11,098**	**11,099**	**10,950**
Movement in CFR	**-325**	**364**	**1**	**-149**

Movement in CFR represented by				
Net financing need for the year (above)	674	793	445	295
MRP and other financing movements	-999	-429	-444	-444
Movement in CFR	**-325**	**364**	**1**	**-149**

7.3 The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

Minimum Revenue Provision (MRP) Statement

7.4 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance, which came into effect from 2008/09. A variety of options is provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

7.5 The new statutory duty is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Authority's Capital Financing Requirement (CFR).

7.6 To support the statutory duty, the Government also issued a guidance which requires that a Statement on the Authority's policy for its annual MRP should be submitted to the full Fire Authority for approval before the start the financial year to which the provision will relate. The Fire Authority is, therefore, legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance, such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance on Investments.

7.7 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Fire Authority should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

7.8 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

7.9 The move to International Financial Reporting Standards (IFRS) involved some leases being reclassified as finance leases instead of operating leases and coming onto the Fire Authority Balance Sheet as long term liabilities. This new accounting treatment impacted on the Capital Financing Requirement with the result that an annual MRP provision was required.

7.10 To ensure that this change has no overall financial impact on Local Authorities, the Government updated their “Statutory MRP Guidance” which allowed MRP to be equivalent to the existing lease rental payments. The 2012/13 figures include finance lease adjustments, but from 2013/14 the Authority bought out all these finance leases, so there are no MRP or CFR implications.

7.11 The policy adopted from 1 April 2012 retained the key elements of the policy previously approved but now incorporates the IFRS changes (re finance leases) and the consequential updated Government Guidance. The policy for 2013/14 is, therefore, as follows:

7.12 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Fire Authority currently sets aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

7.13 From 1 April 2008, for all unsupported borrowing, the MRP policy has been:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

Under both methods, the Fire Authority has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

8. Treasury Management Advisers

8.1 The Fire Authority uses Sector as its treasury management consultant through the contract that exists with East Sussex County Council. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Fire Authority. This service is subject to regular review.

8.2 Sector is the largest provider of Treasury Management advice services to local authorities in the UK and claims to be the market-leading treasury management service provider to their clients. The advice will be monitored regularly to ensure an excellent level of advisory service provided to the Fire Authority.

9. Treasury Management policy statement for 2013/14

It is recommended that the Treasury Management Policy Statement should be unchanged from that already agreed for 2012/13. The statement is set out below:

East Sussex Fire Authority defines its treasury management activities as:

“The management of the organisation’s cash flows; its banking, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Fire Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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