EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy & Resources Panel
Date	12 November 2020
Title of Report	Treasury Management-Half Year Review For 2020/21
By	Assistant Director Resources / Treasurer
Lead Officer	*Richard Carcas, Principal Finance Officer, Treasury & Taxation Centre of Expertise, Orbis*

Background Papers	Fire Authority: 11 June 2020 – Agenda Item 74 Treasury Management – Stewardship report for 2019/20 13 February 2020 – Agenda Item 45: Treasury Management Strategy for 2020/21 CIPFA Treasury Management in the Public Services code of practice and cross sector guidance notes Local Government Act 2003 CIPFA Prudential Code

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Appendices	None

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT	The treasury management half yearly report is a requirement of the Fire Authority's reporting procedures and covers the treasury activity for the first six months of 2020/21. The report includes an update on the first half year of Prudential Indicators which relate to treasury activity.

EXECUTIVE SUMMARY

The Fire Authority has complied with its approved Treasury Management Strategy and Prudential Indicators during the first 6 months of the year.

In challenging economic times as a result of the global impact from the coronavirus pandemic and the national response during lockdown the average rate of interest received through Treasury Management activity was 0.51%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield. The Bank of England (BOE) base interest rate during the period was 0.10%.

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. During 2019/20, an option appraisal for the use of alternative investment options was completed. This option appraisal concluded that, given the Authority's planned steep reduction in reserves (resulting from its planned investment in its Capital Asset Strategy and Project 21), then investment options with a time horizon of up to 3 years would suit the Authority's cash profile and maximise returns at an appropriate level of risk.

The 2020/21 strategy reflected the options appraisal exercise broadly maintaining the prudent approach and ensuring that all investments are only to the highest quality rated banks and financial institutions. The appraisal has resulted in short dated bond funds being added to Authority's list of approved instrument for potential future use which will provide the opportunity to increase returns at an acceptable level of risk.

No new borrowing has been undertaken in 2020/21 to date. On the 30th September 2020 total Public Works Loan Board (PWLB) loan debt outstanding was £10.773m at an average interest rate of 4.60%. The next loan repayment is due on the 31st March 2021 (£75k) with the PWLB. There have been no beneficial opportunities to reschedule debt so far during the year. The projected outturn of the Fire Authority's Capital Financing Requirement (CFR), a measure of the underlying need to borrow is £10.698m.

RECOMMENDATION

The Panel is recommended to:

(i) Note the treasury management performance for the first half year of 2020/21.

(ii) Identify any further reassurance the Panel requires in relation to the delivery of the Treasury Management Strategy.

1. INTRODUCTION

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) and supporting regulations require the Authority to "have regard to" the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice when setting Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

b) The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) which sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

c) Under the Act the Ministry of Housing, Communities and Local Government (MHCLG) 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 the Annual Treasury Strategy Report);
b) Review actual activity for the preceding year;
c) Review mid-year activity (this report) ; and
d) Report changes to our Strategy (when required)

1.4 This report sets out information on:

a) A summary of the strategy agreed for 2020/21 and the economic factors affecting the strategy in the first six months of this year;
b) The Fire Authority's treasury activity during the first six months on borrowing and short term investments.

2. 2020/21

2.1 Original Strategy for 2020/21

2.1.1 At its meeting on 13 February 2020, the Fire Authority agreed its treasury management strategy for 2020/21, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2020/21 as set out below.

2.1.2 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

2.1.3 The Fire Authority will need to recommence borrowing in the short to medium term in order to fund its Capital Strategy. However any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of Carrying this debt ahead of need, and interest rate forecasts set out above. No new PWLB borrowing has taken place since January 2008.

2.1.4 Back on the 9 October 2019 the Government announced an unexpected increase to the PWLB interest rate for all new loans. The increase added a further 1% (100bps) to the cost of borrowing. It also increased the statutory limit on how much the PWLB can have lent out at once, from £85bn to £95bn. 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.

2.1.5 HM Treasury released a consultation with local authorities on possibly further amending margins over PWLB gilt yields; this was to end on 4th June, but that date was subsequently put back to 31 July 2020. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield). The final report is due in the coming year and most Local Authorities have delayed borrowing from the PWLB until the full outcome of the consultation is released.

Investment

2.1.6 When the strategy was agreed in February of this year, the advice given to us by our advisors, Link Asset Service, was that short term rates were expected to remain low for a considerable time. As global events have taken place this view has not been altered.

2.1.7 An options appraisal was undertaken as part of the 2020/21 strategy setting outlining the scope and options for alternative investments based on the capital strategy and levels of investment balances available. This option appraisal concluded that, given the Authority's planned steep reduction in reserves (resulting from its planned investment in its Capital Asset Strategy and Project 21), then investment options with a time horizon of up to 3 years would suit the Authority's cash profile and maximise returns at an appropriate level of risk. Officers in conjunction with the Treasurer will aim to seek additional returns within the approved strategy with regard to security, liquidity and yield.

2.1.8 It was recommended to add Short Dated Bond Funds to the Authority's current approved options for Investment. They are added to the group of Specified Investments the Authority can use and could be used subject to due dillegnece and favourable market conditions. They are designed to produce an enhanced return over and above an Ultra Short Dated Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated and a proportion of lower rated investments. The return on the funds are typically much higher, but can be more volatile than Ultra-Short Dated bond funds, so a longer investment time horizon is recommended.

Investment and Borrowing Strategy agreed for 2020/21

2.1.9 The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments (the Guidance), the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Link Asset Services Guidance Notes (including CIPFA TM Code).

2.1.10 The Authority will make use of the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.1.11 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour codes are used by the Authority to determine the duration for investments. The strategy provides scope to invest in AAA rated foreign banks. However the Authority proposes to only use counterparties within the following durational bands that are domiciled in the UK.

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour, not to be used

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

2.1.11 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets.

2.1.12 The use of Specified Investments - Investment instruments identified for use in the financial year are as follows:

The Table below set out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these.

Counterparty	Country/ Domicile	Instrument	Max. investment	Max. maturity period
Counterparties in UK				
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	unlimited	1 yr
Government Treasury bills	UK	Term Deposits	unlimited	1 yr
Local Authorities	UK	Term Deposits	unlimited	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£4m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£4m	1 yr
Barclays	UK		£4m	1 yr
Santander UK	UK		£4m	1 yr
HSBC	UK		£4m	1 yr
Goldman Sachs IB	UK	Term Deposits	£4m	1 yr
Standard Chartered Bank	UK	Term Deposits	£4m	1 yr
Individual Money Market Funds	UK / Ireland Domiciled	AAA rated Money Market Funds	£4m	Liquidity/instant access
Enhanced Money Market / Cash Funds (EMMFs) VNAV	UK/Ireland/EU Domiciled	AAA Bond Fund Rating	£4m	Liquidity

2.1.13 Non Specified Investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments are set out below:

Non Specified Investments	Minimum credit criteria	Period
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

2.1.14 The net borrowing requirement within Table 3.2.1 below shows that, based on current estimates, the Authority does not need to borrow in the immediate term, to support the capital programme. However in the short to medium term any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. The Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

2.1.15 Treasury staff regularly review opportunity for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made Public Works Loan Board (PWLB) debt restructuring now much less attractive. Consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through market loans where a facility is available to agree terms but the borrower does not draw down the loan until a forward date when the funds are required.

2.1.16 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.1.17 Consideration will also be given to identifying if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.1.18 All debt rescheduling will be agreed by the Assistant Director Resources / Treasurer.

2.2 **Economic performance to date and outlook (commentary supplied by our advisors Link Asset Services). September 2020.**

2.2.1 The coronavirus outbreak has done huge economic damage to the UK and economies around the world.

2.2.2 As expected, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to 21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

2.2.3 The MPC also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

2.2.4 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crsis and £7bn more recently.

2.2.5 In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy

later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

2.2.6 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

2.2.7 Link Asset Services, has provided the following forecast as at 30th September 2020.

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

2.3 Interest on short term balances

2.3.1 The average base interest rate during the six months was 0.10% with no expectation placed on any increase in the near short term.

2.3.2 There have been continued uncertainties in the markets during the year to date as set out in section 2.2 above.

2.3.3 The strategy for 2020/21, agreed in February 2020, 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.

2.3.4 The total amount received in short term interest for the six months to 30th September 2020 was £68k at an average rate of 0.51%. This was above the average of base rates in the same period (0.10%) and succeeded in the aim to secure investment income of at least base rate on the Fire Authority's general cash balances.

2.3.5 In April the Authority placed a £2.25m Local Authority Deposit for an 18 month period at a fixed rate of 1.25%. This deposit will secure a fixed return in the current low interest rate environment. Other deposits have been held in bank notice accounts with Lloyds/HBOS, Barclays, Goldman Sachs and Santander, their margins are priced over base rate currently between 0.19%-0.50% depending on duration of notice, 95 to 175 days.

The investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

2.3.6 Non specified longer duration investment options such as pooled property funds, short dated bond funds and mixed asset funds were not utilised in the period. At this time of market volatility, potential principal loss and the need to keep liquidity available means these options not yet suitable. Alternative shorter investment options such as VNAV MMF's would only offer a marginal gain in return over the current counterparty list. The Fire Authority's strategy is monitored closely and has the flexibility to move into alternatives in the correct financial climate.

2.4 **Long term borrowing**

2.4.1 The cost of new borrowing is in excess of the rate achievable on our investments. No new PWLB borrowing has taken place since January 2008 and is unlikely in the immediate future, however in the short to medium term external borrowing will be required to fund the current capital programme.

2.4.2 The average interest rate of all debt at 30 September 2020 (£10.773m) was 4.60% the next loan to mature will be a £75k PWLB Loan on 31 March 2021 at a rate of 5.13%.

2.4.3 Opportunities for cost effective repayment of existing debt and restructuring opportunities were constantly monitored but none emerged in the first six months of the year.

3. PRUDENTIAL INDICATORS AND LIMITS RELATING TO TREASURY MANAGEMENT ACTIVITIES

3.1 The limits set for 2020/21

The Strategy Report for 2020/21 set self-imposed prudential indicators and limits. There are on an annual basis and monitored. They comprise:

None of the limits has been exceeded in 2020/21 to date.

Prudential Indicator	Compliant
Capital Expenditure	Yes
Ratio of Financing Costs to Net Revenue Stream	Yes
Capital Financing Requirement (CFR)	Yes
Net external Borrowing compared to the medium term CFR	Yes
Upper limits for fixed interest rate exposure and variable interest rate exposure	Yes
Upper limit for total principal sums invested over 365 days	Yes
Actual External Debt	Yes
Authorised Limit for External Debt	Yes
Operational Boundary for External Debt (see 3.2)	Yes
Maturity Structure of Fixed Rate Borrowing (see 3.4)	Yes
Maturity Structure of Investments (see 3.6)	Yes
Incremental Impact of Capital Investment Decisions	Yes
Adoption of the CIPFA Treasury Management Code (see 3.5)	Yes
Interest rate exposures (see 3.3)	Yes
Interest rate on long term borrowing	Yes
Interest on investments	Yes
Minimum Revenue Provision (see 3.7)	Yes

3.2 Authorised limit for borrowing

3.2.1 The table below sets out the actual 2019/20, original estimate and projected outturn in 2020/21 for borrowing.

	2019/20 Actual £000	2020/21 Original Estimate £000	2020/21 Projected Outturn £000
Opening CFR	**10,773**	**10,773**	**10,773**
Capital Investment	2,756	5,375	5,061
Sources of Finance	(2,325)	(4,944)	(4,630)
MRP	(431)	(431)	(431)
Movement in year	**-**	**(75)**	**(75)**
Closing CFR	**10,773**	**10,698**	**10,698**

less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,773**	**10,698**	**10,698**
Actual Long Term Borrowing	**10,773**	**10,698**	**10,698**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**10,810**	**10,735**	**10,735**
Authorised Limit	**13,199**	**13,124**	**13,124**

3.2.2 The Operational boundary for borrowing was based on the same estimates as the Authorised limit. It reflected directly the authorised borrowing limit estimate 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.

3.2.3 The Authorised limit was 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. It was based on the estimate of most likely, prudent but not worst case scenario, with in addition 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. Risk analysis and risk management strategies were taken into account as were plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

3.2.4 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The estimated long term borrowing at 31 March 2021 of £10,698,000 is under the Authorised limit set for 2020/21 of £13,124,000.

3.3 **Interest rate exposure**

The Fire Authority's Prudential Indicator continued the practice of seeking competitive fixed interest rate exposure for borrowing, lending and a combined figure of borrowing and lending.

Interest Rate Exposure	2020/21 Upper	2021/22 Upper	2022/23 Upper
Limits on fixed interest rates based on net debt*	100%	100%	100%
Limits on variable interest rates based on net debt*	0%	0%	0%

*Net debt is borrowings less investments

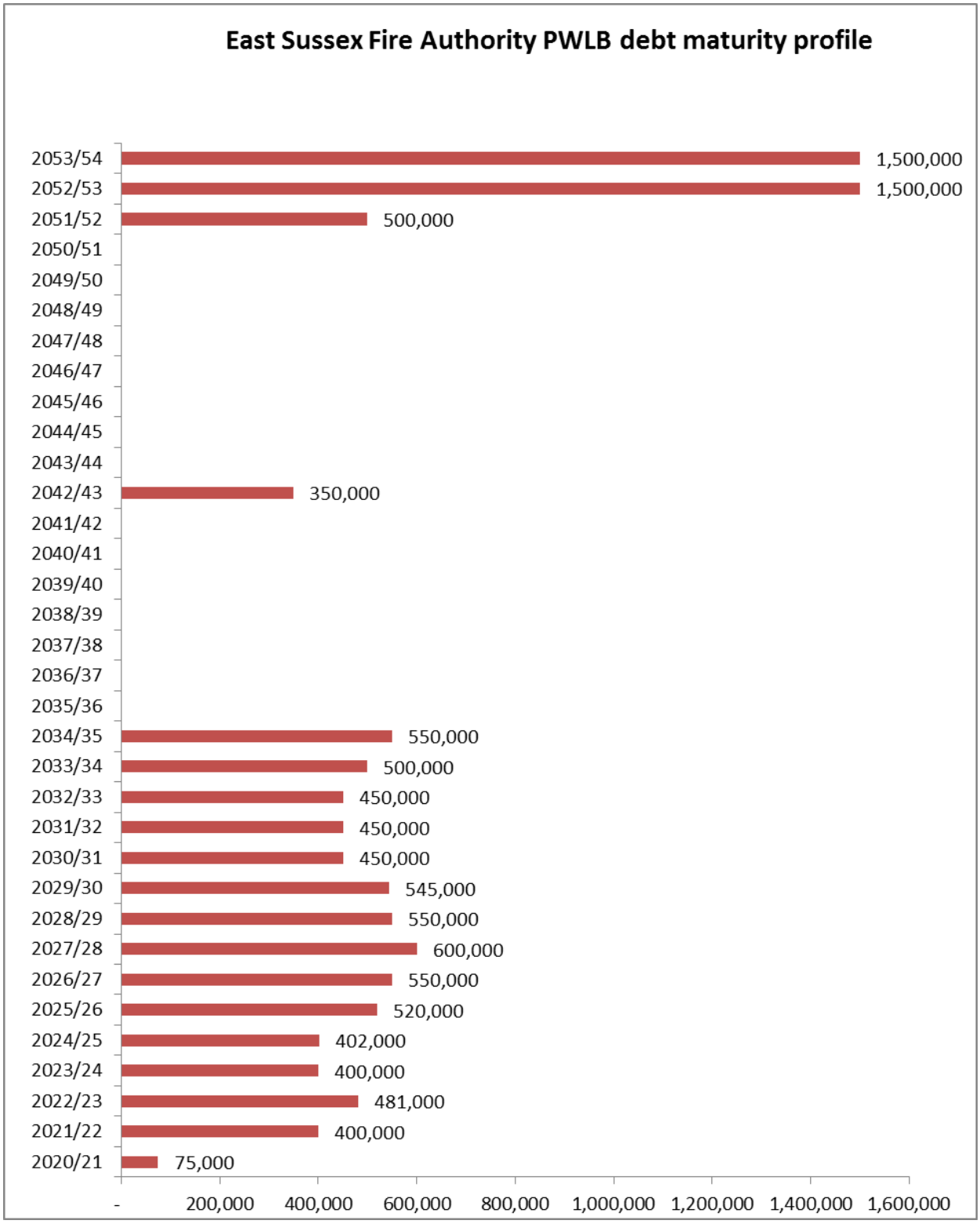
No new borrowing undertaken and all lending at fixed rates

3.4 **Maturity structure of debt**

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

	Estimated Lower Limit	Estimated Upper Limit	Current
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	40%	4%
24 months and within 5 years	0%	60%	16%
5 years and within 10 years	0%	80%	22%
10 years and within 20 years	0%	80%	22%
20 years and within 30 years	0%	80%	3%
30 years and within 40 years	0%	80%	32%
Over 40 years	0%	80%	0%

Any new borrowing undertaken would give due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any future years when interest rates may be unfavourable. No new borrowing has been undertaken in 2020/21 to date. The following graph shows when the debt will mature.


East Sussex Fire Authority PWLB debt maturity profile
2053/54
2052/53
2051/52
2050/51
2049/50
2048/49
2047/48
2046/47
2045/46
2044/45
2043/44
2042/43
2041/42
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550,000
520,000
402,000
400,000
481,000
400,000
75,000
-
200,000
400,000
600,000
800,000
1,000,000
1,200,000
1,400,000
1,600,000

3.5 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. CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. The Authority has been part of the consultation process and will await CIPFA's guidance, amending where necessary for future strategies.

3.6 Maturity structure of investments

The authority has a £2.25m investment with a local authority that commenced on the 18 April 2020 for a duration of 18 months, as at the 30 September 2020 the investment would mature in 390 days.

3.7 Minimum Revenue Provision Statement

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

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

3.7.2 The Fire Authority approved the Capital Finance Requirement projections for 2020/21 in its Strategy approved in February. These are in the original estimate below:

	2019/20 Actual £000	**2020/21 Original Estimate £000**	**2020/21 Projected Outturn £000**
Opening CFR	10,773	10,773	10,773
Closing CFR	10,773	10,698	10,698
Movement in CFR	**-**	**(75)**	**(75)**
Movement in CFR represented by:			
Net financing	431	356	356
MRP	(431)	(431)	(431)
Movement in year	**-**	**(75)**	**(75)**

3.7.3 The Fire Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge called the Minimum Revenue Provision (MRP), although it is also allowed to undertake additional voluntary payments.

3.7.4 The Authority 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. For any new borrowing the Asset Life Method will be used to calculate MRP.

3.7.5 Over the past years the regulatory and economic environment has changed significantly and led some Authorities to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating MRP. MHCLG issued guidance in February 2018 the Authority was part of the consultation process and will amend where necessary for future strategies.

4. TREASURY MANAGEMENT ADVISORS

4.1 The Strategy for 2020/21 explained that the Fire Authority uses Link Asset Services as its treasury management consultant through the contract that exists with East Sussex County Council. The company has provided a range of services which have included:

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

4.2 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 Authority. This service remains subject to regular review.

4.3 Link is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market-leading treasury management service to their clients. The advice will continue to be monitored regularly to ensure an excellent level of service provided to the Authority.

5. CONCLUSION

5.1 The prime objective of Treasury Management is the effective management of risk and that its activities are undertaken in a prudent affordable and sustainable basis.

5.2 This report confirms the Authority has continued to follow a prudent approach with the main criteria of security and liquidity before yield. The current emphasis must continue to be able to react quickly if market conditions change.