EAST SUSSEX FIRE AUTHORITY

Meeting	Policy & Resources Panel
Date	11 November 2021
Title of Report	Treasury Management-Half Year Review For 2021/22
By	Assistant Director Resources / Treasurer
Lead Officer	*Richard Carcas, Principal Finance Officer, Treasury & Taxation Centre of Expertise, Orbis*

Background Papers	Fire Authority: 2 September 2021 – Agenda Item 121 Treasury Management – Stewardship report for 2020/21 11 February 2021 – Agenda Item 97: Treasury Management Strategy for 2021/22 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 2021/22. 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 coronavirus pandemic and the national response during lockdown the average rate of interest received through Treasury Management activity was 0.25%. 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. The 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.

Since March 2020 global economic events triggered by the COVID 19 pandemic have caused the Authority to pause consideration of entering into longer duration funds. The 2021/22 Strategy counterparty list for specified and non-specified investment was unchanged, however individual counterparty limits were increased from £4m to £6m with a parameter included to ensure that, where practical, no more than 25% of the total investment portfolio would be held with one single counterparty. This will be monitored by the Assistant Director Resources / Treasurer, and reported back to Authority where necessary or appropriate.

It should be noted that following discussion at a recent Fire Authority meeting, officers will be reviewing options to build consideration of Environmental, Social and Governance (ESG) issues into future investment decisions. Any additions to the existing guiding principles of security, liquidity and yield will be proposed as part of the 2022/23 Treasury Management Strategy in February 2023. ESG investing is an emerging market and advice will be sought from the Authority's Treasury Advisors, Link Asset Services (LAS).

No new borrowing has been undertaken in 2021/22 to date. On the 30th September 2021 total Public Works Loan Board (PWLB) loan debt outstanding was £10.298m at an average

interest rate of 4.59%. The next loan repayments are due on the 31st March 2023 (£481k) 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 £10.298m.

RECOMMENDATION The Panel is recommended to:

(i) Note the treasury management performance for the first half year of 2021/22.

(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 2021/22 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. 2021/22

2.1 Original Strategy for 2021/22

2.1.1 At its meeting on 11 February 2021, the Fire Authority agreed its treasury management strategy for 2021/22, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2021/22 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 Based on current estimates, the Fire Authority will need to consider recommencing 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. The Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing

circumstances.

2.1.4 The Authority will not borrow purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Investment

2.1.5 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). The Authority's investment priorities will be security first, liquidity second, and then return.

2.1.6 It was recommended to increase counterparty limits from the Authority's current approved options for Investment from £4m to £6m with the aim where possible not to place more than 25% of the investment portfolio with any single counterparty. This will be monitored by the Assistant Director Resources / Treasurer, and reported back to Authority where necessary or appropriate.

2.1.7 In the current climate the additional flexibility of both changes will help broaden options and secure investment returns relative to the current bank of England base rate.

Investment and Borrowing Strategy agreed for 2021/22

2.1.8 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. T he 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.

2.1.9 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*

2.1.10 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

2.1.11 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	Min. Credit Criteria LAS/Colour band	Max. Amount*	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Government Treasury bills	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
UK Local Authorities	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Banks – part nationalised	UK	• TDs • Deposits on Notice • Certificates of Deposit (CDs)	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Banks	UK	• TDs • Deposits on Notice • CDs	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£6m	Liquidity/ instant access

**No more than 25% of the investment portfolio held with one single counterparty where practically possible.*

2.1.12 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 in the table 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

2.1.13 The maximum amount that can be invested will be monitored in relation to the Authority's surplus monies and the level of reserves, the limit will be £2.5m across all non specified investments for 2021/22. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Authority will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Assistant Director Resources / Treasurer. A detailed list of specified and non-specified investments that form the counterparty list is shown in section 10.

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 2021.**

2.2.1 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

2.2.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

2.2.3 The MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

2.2.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

2.2.5 Link Asset Services, has provided the following forecast as at 30th September 2021.

Link Group Interest Rate View 29.9.21										
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

2.2.6 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 3/24 and a third one to 0.75% in quarter 4 of 23/24.

2.3 Interest on short term balances

2.3.1 The average base interest rate during the six months was 0.10%.

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 2021/22, agreed in February 2021, 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 2021 was £30,000 at an average rate of 0.25%. 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 May the Authority placed £2m in a 35 day notice account with NatWest this deposit will secure a rate of return that out performs current overnight rates in Money Market Funds which have been 0.01%. In August a further £1m was placed on a 6 month fixed arrangement with Goldman Sachs at rate of 0.19% the maturity date coincides with a potential cashflow need before March 2022. 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 earning between 0.15%- 0.40% depending on duration of notice, 95 to 175 days.

2.3.6 An 18 month Local Authority has provided a fixed rate of return in a low interest rate environment of 1.25% this deal with Dudley MBC will mature in October 2021. The Local Authority market does historically pick up during quarter 4 and reinvestment could be paused until then.

2.3.7 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.

2.3.8 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.

2.4 **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 2021 (£10.3m) was 4.59%. Two PWLB loans matured during September for £138k and £242k, at rates of 4.75% and 4.88%. The next PWLB loans to mature total £481k on 31 March 2023 at a average rate of 5.63%.

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 2021/22

The Strategy Report for 2021/22 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 2021/22 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 2020/21, original estimate and projected outturn in 2021/22 for borrowing.

	2020/21 Actual £000	2021/22 Original Estimate £000	2021/22 Projected Outturn £000
Opening CFR	**10,773**	**10,698**	**10,698**
Capital Investment	2,295	6,105	3,768
Sources of Finance	(1,939)	(6,077)	(3,740)
MRP	(431)	(428)	(428)
Movement in year	**(75)**	**(400)**	**(400)**

Closing CFR	**10,698**	**10,298**	**10,298**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,698**	**10,298**	**10,298**
Actual Long Term Borrowing	**10,698**	**10,298**	**10,298**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**11,166**	**10,776**	**10,776**
Authorised Limit	**13,555**	**13,115**	**13,115**

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 2022 of £10,298,000 is under the Authorised limit set for 2021/22 of £13,115,000.

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	2021/22 Upper	2022/23 Upper	2023/24 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

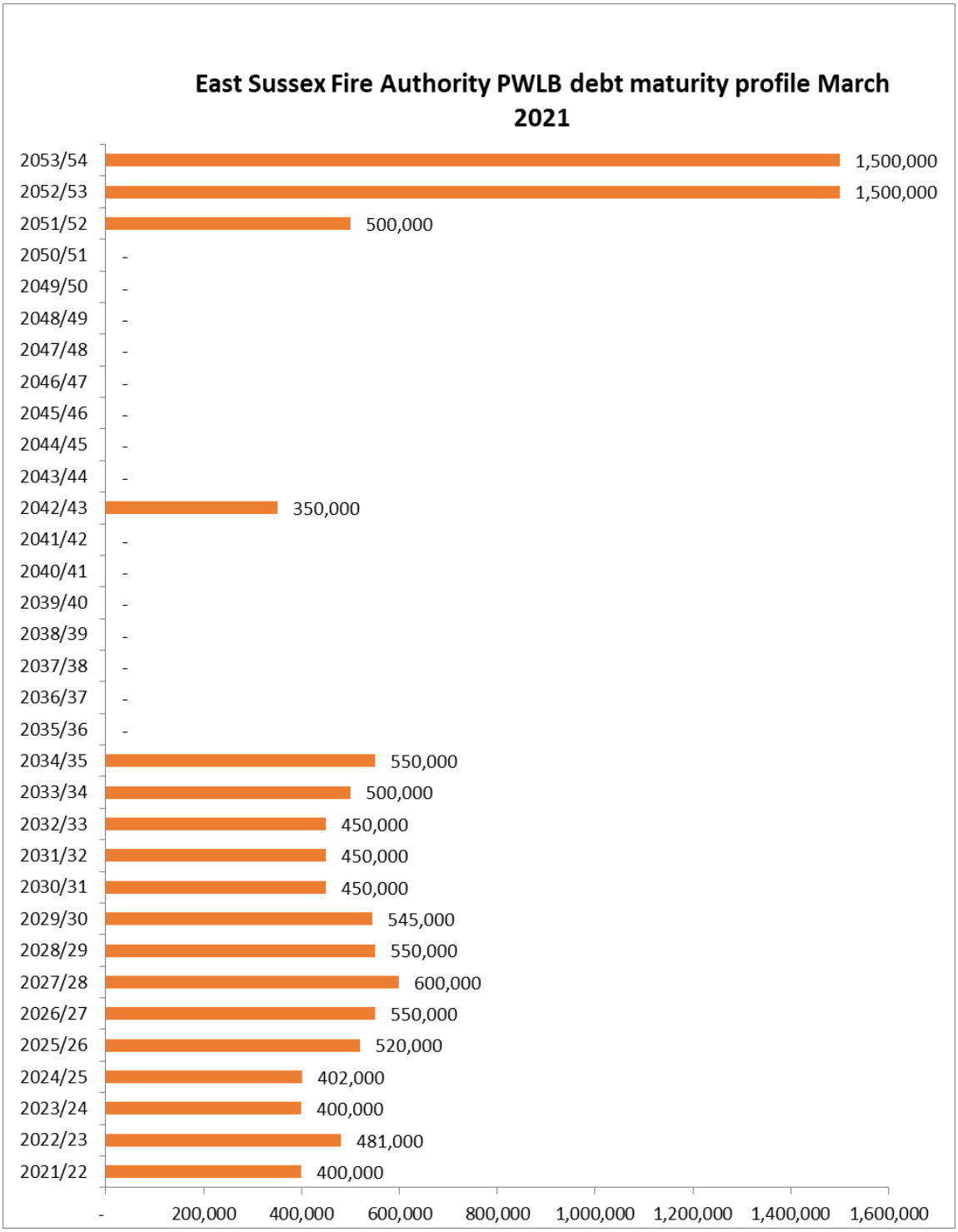
No new borrowing undertaken and all lending at fixed rates

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 30/09/21
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	7%
24 months and within 5 years	0%	60%	11%
5 years and within 10 years	0%	80%	26%
10 years and within 20 years	0%	80%	19%
20 years and within 30 years	0%	80%	3%
30 years and within 40 years	0%	80%	34%
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 2021/22 to date. The following graph shows when the debt will mature.



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 24 April 2020 for a duration of 18 months, as at the 30 September 2021 the investment would mature in 24 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 2021/22 in its Strategy approved in February. These are in the original estimate below:

	2020/21 Actual £000	**2021/22 Original Estimate £000**	**2021/22 Projected Outturn £000**
Opening CFR	10,773	10,698	10,698
Closing CFR	10,698	10,298	10,298
Movement in CFR	**(75)**	**(400)**	**(400)**
Movement in CFR represented by:			
Net financing	356	28	28
MRP	(431)	(428)	(428)
Movement in year	**(75)**	**(400)**	**(400)**

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.

3.7.3 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.

3.7.4 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 2021/22 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.