EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy & Resources Panel
Date	10 November 2022
Title of Report	Treasury Management – Half Year Review For 2022/23
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Background Papers	Fire Authority: 9 June 2022 – Agenda Item 106 Treasury Management – Stewardship report for 2021/22 10 February 2022 – Agenda Item 90: Treasury Management Strategy for 2022/23 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 (please tick ✓ and attach to report)
Any implications affecting this report should be noted within the final paragraphs of the report

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 2022/23. 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.

The first six months of the year have been challenging economic times as a result of global events and inflationary factors on the UK economy. The average rate of interest received through Treasury Management activity was 1.30%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield. The Bank of England (BOE) base rate during the period was increased on four separate occasions in May, June, August and September and at 30 September it was 2.25%. The average Bank of England Base Rate during the six months to 30 September was 1.07%.

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, IT 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 2022/23 Strategy counterparty list for specified and non-specified investment was unchanged.

The Authority has agreed to add Environment, Social and Governance (ESG) as a 4th parameter to consider when making investment decisions behind Security, Liquidity and Yield. The preservation of capital remains the Authority's principal and overriding priority.

No new borrowing has been undertaken in 2022/23 to date. On the 30 September 2022 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 31 March 2023 (£481k) with the PWLB. There have been no beneficial opportunities to reschedule debt so far during the year to date. However, opportunities will be considered if they are both prudent and affordable.

The projected outturn of the Fire Authority's Capital Financing

Requirement (CFR), a measure of the underlying need to borrow is £9.817m.

RECOMMENDATION The Panel is recommended to:

i. note the treasury management performance for the first half year of 2022/23; and

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

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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 Department for Levelling Up, Housing & Communities (DLUHC) 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 2022/23 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 2022/23

2.1 **Original Strategy for 2022/23**

2.1.1 At its meeting on 10 February 2022, the Fire Authority agreed its treasury management strategy for 2022/23, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2022/23 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 DLUHC'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 agreed that the Fire Authority will explore Investment options that meet Environment, Social and Governance (ESG) aims. The parameter will act as an added 4th consideration to investment decisions behind Security, Liquidity and Yield. The preservation of capital remains the Authority's principal and overriding priority. This will be monitored by the Assistant Director Resources / Treasurer and reported back to Authority where necessary or appropriate.

Investment and Borrowing Strategy agreed for 2022/23

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. 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.

2.1.9 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 2022/23. 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. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

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 2022.

2.2.1 The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;

- Signs of economic activity losing momentum as production fell due to rising energy prices;

- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;

- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;

- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;

- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23 September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

2.2.2 There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g. chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

2.2.3 The BoE’s Monetary Policy Committee (MPC) has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the US Federal Bank and European Central Bank raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England’s latest 50 ps hike looks relatively dovish. However, the UK’s status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

2.2.4 Since the fiscal event on 23 September, we now expect the MPC to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government’s fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

2.2.5 Link Asset Services, has provided the following forecast as at 30 September 2022.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

2.2.6 Our central forecast for interest rates was previously updated on 9 August and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the “Fiscal Event” has complicated the picture for the MPC, who will now need to double-down on counteracting inflationary pressures stemming from the Government’s widespread fiscal loosening.

2.3 Interest on short term balances

2.3.1 The average Bank of England Base Rate during the six months to 30 September was 1.07%.

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

2.3.3 The strategy for 2022/23, agreed in February 2022, 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 30 September 2022 was £132,617 at an average rate of 1.30%. This was above the average base rate in the same period (1.07%) 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 Investments held in liquidity accounts, e.g. Money Market Funds (MMF) have seen an uplift in return in conjunction with a rising Base Rate. This has helped overall performance in the first 6 months of the year. Funds are held in MMF’s to meet the need of future cashflow requirements, on 30 September the average rate earned on those balances was 2%.

2.3.6 During the period the Authority placed a number of fixed term deposits with UK Banks, on a laddered maturity approach, to roll up the yield curve in a rising interest rate environment. Fixed term deposits have been placed with Goldman Sachs, NatWest and Standard Chartered Bank (ESG). For durations between 3 – 12 months, at rates between 1.11% - 2.61%.

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 2022 (£10.3m) was 4.59%, no debt matured in the period. The next PWLB loans to mature total £481k on 31 March 2023 at an 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. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

3 Prudential Indicators and limits relating to Treasury Management activities

3.1 The limits set for 2022/23

The Strategy Report for 2022/23 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 2022/23 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 2021/22, original estimate and projected outturn in 2022/23 for borrowing.

	2021/22 Actual £000	**2022/23 Original Estimate £000**	**2022/23 Projected Outturn £000**
Opening CFR	**10,698**	**10,298**	**10,298**
Capital Investment	1,894	7,250	5,426
Sources of Finance	(1,866)	(7,226)	(5,495)
MRP	(428)	(412)	(412)
Movement in year	**(400)**	**(388)**	**(481)**
Closing CFR	**10,298**	**9,910**	**9,817**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,298**	**9,817**	**9,817**
Actual Long Term Borrowing	**10,298**	**9,817**	**9,817**
Over / (Under) Borrowing	-	(93)	-
Operational Boundary*	**10,776**	**10,378**	**10,378**
Authorised Limit*	**13,155**	**12,767**	**12,767**

*Excluded amounts related to lease liabilities. Due to deferral of the implementation.

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 2023 of £9,817,000 is under the Authorised limit set for 2022/23 of £12,767,000.

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	2022/23 Upper	2023/24 Upper	2024/25 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

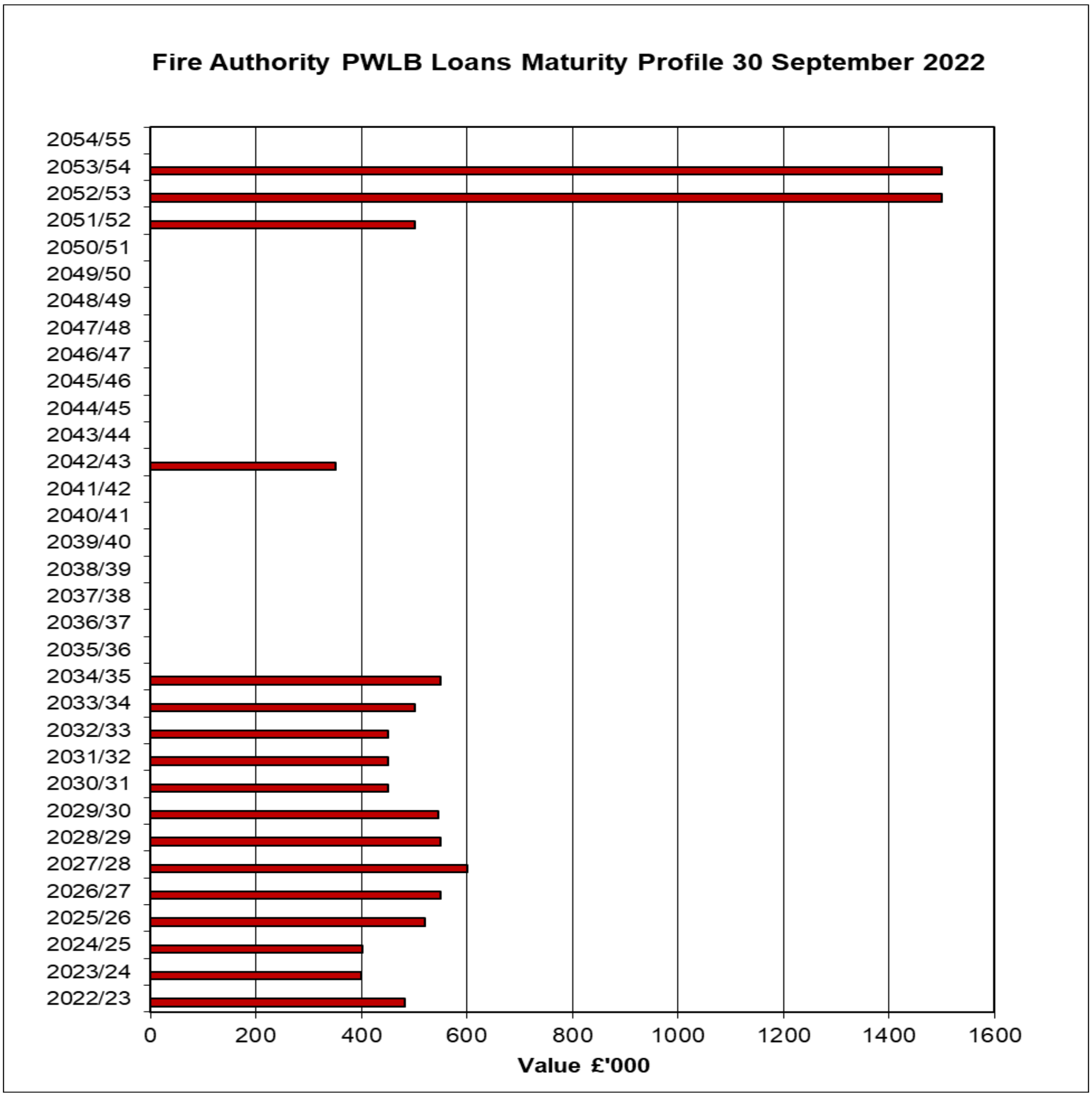
No new borrowing undertaken and all lending at fixed rates

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 30/09/22
Under 12 months	0%	25%	5%
12 months and within 24 months	0%	40%	4%
24 months and within 5 years	0%	60%	14%
5 years and within 10 years	0%	80%	25%
10 years and within 20 years	0%	80%	15%
20 years and within 30 years	0%	80%	8%
30 years and within 40 years	0%	80%	29%
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 2022/23 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 held investments from overnight to a 12 month fixed maturity profile. As of the 30 September the longest dated deposit held was with NatWest, this will mature in August 2023.

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 2022/23 in its Strategy approved in February. These are in the original estimate below:

	2021/22 Actual £000	**2022/23 Original Estimate £000**	**2022/23 Projected Outturn £000**
Opening CFR	10,698	10,298	10,298
Closing CFR	10,298	9,910	9,817
Movement in CFR	**(400)**	**(388)**	**(481)**
Movement in CFR represented by:			
Net financing	28	24	(69)
MRP	(428)	(412)	(412)
Movement in year	**(400)**	**(388)**	**(481)**

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 Revenue 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. DLUHC issued guidance in February 2018 and the Authority will amend where necessary for future strategies.

4 Treasury Management Advisors

4.1 The Strategy for 2022/23 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.