EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy & Resources Panel
Date	31 October 2019
Title of Report	Treasury Management - Half Year Review for 2019/20
By	Assistant Director Resources / Treasurer

Background Papers	Fire Authority reports: 13 June 2019 - Agenda Item 13 Treasury Management – Stewardship report for 2018/19 14 February 2019 - Agenda Item 85: Treasury Management Strategy for 2019/20 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)

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 2019/20. 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 conditions the average rate of interest received through Treasury Management activity was 0.92%. 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 0.75%.

The Authority has been exploring with its advisers opportunities for investment which would offer improved returns whilst maintaining acceptable levels of security and liquidity. It is anticipated that this will be reported back to Fire Authority in December together with any recommendations for changes in our Treasury Management Strategy. Options will take into account the reductions in funds available for investment as a result of planned investment through the Authority's Capital Strategy and the funding implications of the Authority's Mobilising Strategy through Project 21.

No new borrowing has been undertaken in 2019/20 to date. On the 30th September 2019 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 £10.773m.

On the 9 October the Government announced an unexpected increase to the PWLB interest rate for all new loans. The increase added 1% 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. The increase to future borrowing cost will have an impact and will be factored into the developing Capital Strategy.

RECOMMENDATION

The Panel is recommended to:

(i) Note the treasury management performance for the first half year of 2019/20.

(ii) Note that a further report on Treasury Management opportunities will be brought to the Authority in December.

(iii) 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 2019/20 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. 2019/20

2.1 Original Strategy for 2019/20

2.1.1 At its meeting on 14 February 2019, the Fire Authority agreed its treasury management strategy for 2019/20, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2019/20 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 new 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 Opportunities to reschedule debt have been monitored but have not yet arisen. The PWLB increased all of its lending rates on the 20 October 2010 (the day of the Government's Comprehensive Spending Review) by 1% on all rates.

2.1.5 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% 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.

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. The economic outlook and structure of market interest rates and government debt yields had several key treasury mangement implications:

(a) Investment returns are likely to remain relatively low during 2019/20 and beyond periods;

(b) Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Fire Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt; returns are likely to remain relatively low during 2018/19 and beyond;

(c) There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Investment and Borrowing Strategy agreed for 2019/20

2.1.7 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).

2.1.8 The Fire Authority has always adopted a prudent approach on its investment strategy and, in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Authority is able to invest at the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained. The 2019/20 strategy continues the prudent approach and ensures that all investments were only to the highest quality rated banks and financial institutions.

2.1.9 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.

2.1.10 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)	Appropriate rating	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

The Fire Authority does not have any Non Specified Investments currently.

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, 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 will 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 2019.

2.2.1 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The Monetary Policy Committee (MPC) meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies.

2.2.2 The MPC left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

2.2.3 Inflation (CPI) has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

2.2.4 In the labour market, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

2.2.5 The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

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2.2.7 Link Asset Services, has provided the following forecast as at 30th September 2019.

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

2.3 Interest on short term balances

2.3.1 The average base interest rate during the six months was 0.75%.

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 2019/20, agreed in February 2019, 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 2019 was £120k at an average rate of 0.92%. This was above the average of base rates in the same period (0.75%) 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 August the Authority placed a £4m notice account deposit with Goldman Sachs at 0.95%, the notice period for withdrawals is 95 days. Funds are invested across notice accounts with Lloyds/HBOS, Barclays and Santander, their margins are priced over base rate between 0.20%-0.38% depending on duration of notice, 95 to 175 days. A 6 month £2m Local Authority Deposit matured in June 2019 and was not reinvested in the Local Authority Market as rates have reduced over the period. The investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow an extremely 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 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 b required to fund the current capital programme.

2.4.2 The average interest rate of all debt at 30 September 2019 (£10.773m) was 4.60% and will be unchanged at 31 March 2020 as long as no new loans are taken and no beneficial rescheduling of debt is available.

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 2019/20

The Strategy Report for 2019/20 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 2019/20 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 2018/19, original estimate and projected outturn in 2019/20 for borrowing.

	2018/19 Actual £000	2019/20 Original Estimate £000	2019/20 Projected Outturn £000
Opening CFR	**10,773**	**10,773**	**10,773**
Capital Investment	1,010	6,727	5,443
Sources of Finance	(579)	(6,296)	(5,012)
MRP	(431)	(431)	(431)
Movement in year	**-**	**-**	**-**
Closing CFR	**10,773**	**10,773**	**10,773**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,773**	**10,773**	**10,773**
Actual Long Term Borrowing	**10,773**	**10,773**	**10,773**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**11,241**	**11,241**	**11,241**
Authorised Limit	**13,630**	**13,630**	**13,630**

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 2020 of £10,773,000 is under the Authorised limit set for 2019/20 of £13,630,000.

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	2019/20 Upper	2020/21 Upper	2021/22 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

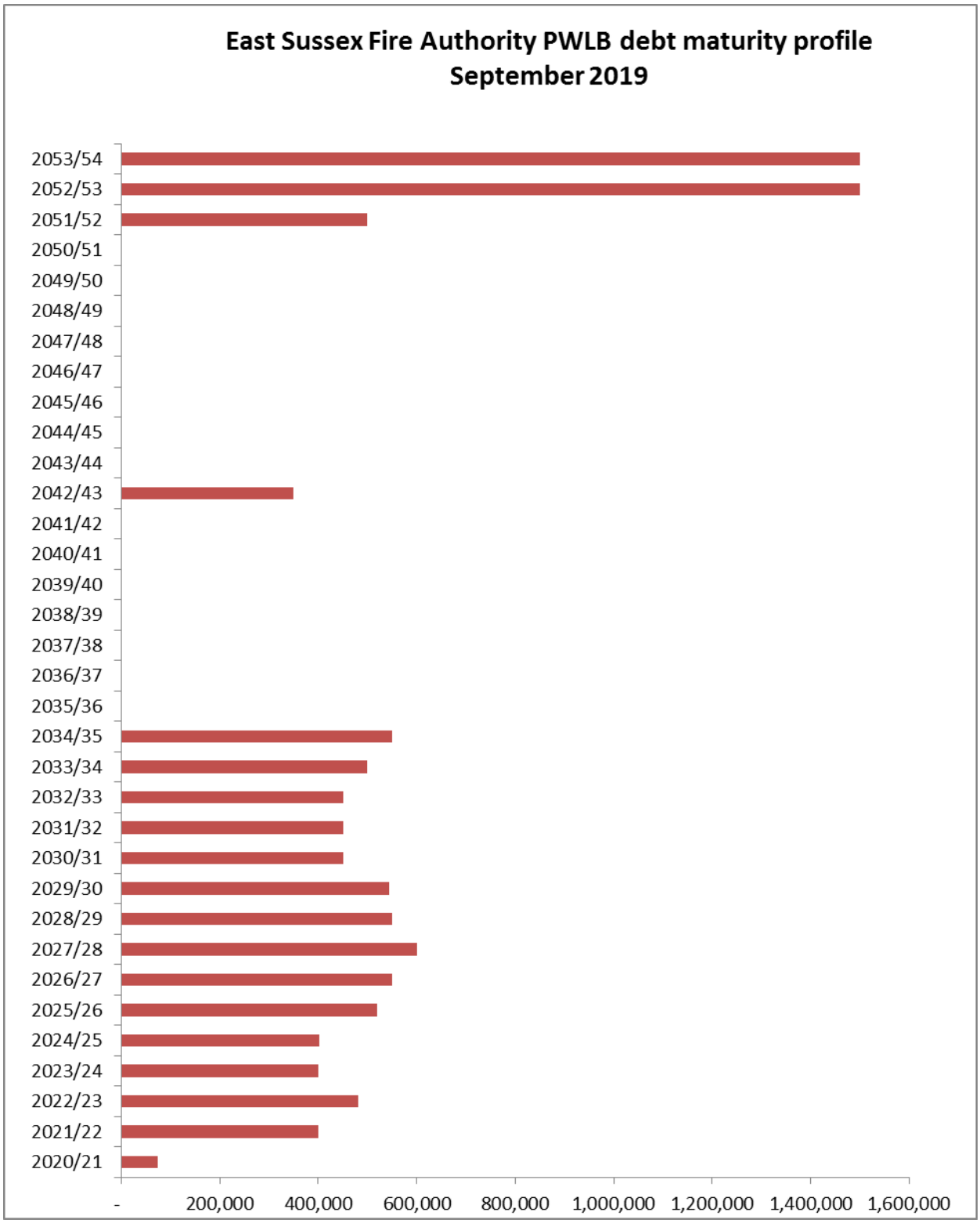
No new borrowing undertaken and all lending at fixed rates

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%	0%
12 months and within 24 months	0%	40%	1%
24 months and within 5 years	0%	60%	12%
5 years and within 10 years	0%	80%	24%
10 years and within 20 years	0%	80%	27%
20 years and within 30 years	0%	80%	3%
30 years and within 40 years	0%	80%	33%
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 2019/20 to date. The following graph shows when the debt will mature.


East Sussex Fire Authority PWLB debt maturity profile
September 2019
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
2040/41
2039/40
2038/39
2037/38
2036/37
2035/36
2034/35
2033/34
2032/33
2031/32
2030/31
2029/30
2028/29
2027/28
2026/27
2025/26
2024/25
2023/24
2022/23
2021/22
2020/21
-
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 continued the current policy and not invested any sums for more than 364 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 2019/20 in its Strategy approved in February. These are in the original estimate below:

	2018/19 Actual £000	**2019/20 Original Estimate £000**	**2019/20 Projected Outturn £000**
Opening CFR	10,773	10,773	10,773
Closing CFR	10,773	10,773	10,773
Movement in CFR	**-**	**-**	**-**
Movement in CFR represented by:			
Net financing	431	431	431
MRP	(431)	(431)	(431)
Movement in year	**-**	**-**	**-**

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 2019/20 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 instrument
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.