Agenda Item No. 624

EAST SUSSEX FIRE AUTHORITY

Date:	**2 February 2012**
By:	**Treasurer**
Title:	**Fire Authority Treasury Management Strategy for 2012/13**
Purpose of Report:	**To determine the Fire Authority's authorised borrowing limit, to adopt the prudential indicators and treasury management indicators, to approve the Minimum Revenue Provision Statement and to agree the treasury management strategy and policy statement for 2012/13.**

RECOMMENDATION: The Fire Authority is recommended to

a) determine that for 2012/13 the authorised limit for borrowing shall be £13,982,000;
b) adopt the prudential indicators and treasury management indicators within the report (as set out in section 5);
c) approve the Minimum Revenue Provision Statement for 2012/13 (as set out in section 6); and
d) agree the treasury management strategy and policy statement for 2012/13 (section 8).

MAIN ISSUES

Under the Local Government Act 2003 and the Prudential Code for Capital Finance 2004, the Fire Authority is required to determine its authorised borrowing limit, to adopt prudential indicators and treasury management indicators, to approve the Minimum Revenue Provision Statement and to agree the treasury management strategy and policy statement for 2012/13, details of which are set out in the supporting information.

Sean Nolan
TREASURER
20 January 2012

<u>Background Papers</u>
Prudential Code for Capital Finance 2004
East Sussex Fire Authority:
  2 June 2011 – Agenda Item No 559: Stewardship report for 2010/11
  3 February 2011 – Agenda Item No 525: Strategy for 2011/12
  8 December 2011 – Agenda Item No 593: Half year report and amendments to our Strategy for 2011/12
Local Government Act 2003
Local Government Investments – Guidance from The former Office of the Deputy Prime Minister
CIPFA Prudential Code in November 2009
CIPFA Treasury Management in the Public Services- Code of Practice
Local Government and Public Involvement in Health Act 2007
Communities and Local Government-Changes to the Capital Finance System

Treasury Management Strategy for 2012/13

1. **Background information**

1.1 The Fire Authority receives an annual Treasury Management Strategy report in February which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses.

1.2 This 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 in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

Original Strategy for 2011/12

1.3 The strategy ensured that in the economic climate a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Authority's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The strategy continued with this prudent approach.

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

1.5 Our policy gave some flexibility to borrow up to £201,000 in advance of future need. However, given the interest rate climate, no external borrowing and certainly none in advance, was planned.

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

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

<u>Up to a maximum of £3m deposited up to a period of up to one year with any of the following</u>

Bank / Fund
Barclays
Lloyds/ HBOS
Nat West/RBS
Santander UK
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated)
Individual Cash Type Money Market Funds (AAA rated)

Only banks which are eligible for the Government's Credit Guarantee Scheme AND meet the following minimum rating criteria for at least two of the designated agencies to be used.

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

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

1.8 The strategy going forward would continue with the policy of ensuring minimum risk, but would also need to deliver secure investment income of at least bank rate on the Fire Authority's cash balances. (The actual target was bank rate plus 0.5%).

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

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

Amendments and Revised Strategy agreed for 2011/12

1.11 Changes to the Strategy for 2011/12 have been made and reported to the Fire Authority on 8 December 2011. The amendments reflect the uncertainties in the market.

1.12 Our Treasury Management Policy recognised that movements within the money markets can happen with no notice and the Treasurer would have to amend this strategy in order to safeguard Fire Authority funds.

1.13 Although our Strategy allowed for investments up to one year, the continuing uncertainties in the markets dictated that we continued with an on call policy (all of our investments could be returned within a working day).

1.14 In October, the ratings agency Moody's reduced the credit ratings of twelve UK financial institutions including NatWest/RBS, Lloyds / HBOS and Santander UK. Later in the same month, the ratings agency Fitch reduced the credit ratings of two UK financial institutions NatWest/RBS and Lloyds / HBOS. These rating agency reviews were part of a previously announced (May 2011) reassessment of the likely level of systemic (Government) support these institutions would get IF they were to get into financial difficulty in the future. It was reported that the resultant downgrading should not necessarily be construed as indicating that these institutions are experiencing difficulty that would result in a default.

1.15 The consequence of the bank downgrades meant that we were operating outside our normal rating criteria with two banks i.e. ~ NatWest/RBS and Lloyds/HBOS ~ which fall below our minimum rating agency thresholds but within overall policy because the Treasurer had discretion.

1.16 The position was that we continued to invest in both NatWest/RBS and Lloyds/HBOS because.

- The high level of Government Ownership of NatWest/RBS (83%) and Lloyds/HBOS (40.2%).
- UK Sovereign rating remains at AAA.
- We had an overnight policy and monies can be withdrawn without notice.
- NatWest /RBS is the Fire Authority's banker.

1.17 The changes above required the Strategy for 2011/12 (set out in Paragraphs 1.3 to 1.10 of this report) to be amended to continue with the prime objective of the effective management of risk and following our prudent policy.

1.18 Under paragraph 1.7, where the Fire Authority funds would be invested were changed as follows:-

(A) UK Investment Without Government Equity Holding

<u>Up to a maximum of £3m deposited up to a period of up to one year</u> with any of the following: -

The current policy stance is overnight, but the policy allows changes to reflect market conditions if, and when, they improve.

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

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

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

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

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

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

The current policy stance is overnight, but the policy allows changes to reflect market conditions if, and when, they improve.

Bank
Lloyds/HBOS Nat West/RBS

Only banks which meet the following minimum rating criteria for at least two of the designated agencies are to be used. The banks will not be used if the UK Sovereign rating falls below AAA.

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

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

1.19 In addition to the Credit Ratings Agencies, various methods have been, and will be, used to monitor the Banks and Funds and these are set out in paragraph 1.9. Other very safe alternative investments will be explored when they become available.

Summary of the Changes to our Strategy

1.20 The changes in our policy were summarised as follows:-

The policy split the investments into two groups,

(A) UK Investment Without Government Equity Holding and
(B) UK Investment With Government Equity Holding of minimum of 30%

UK Investment Without Government Equity Holding

- The reference to the Government's Credit Guarantee Scheme was deleted as it is not now relevant.

- Investments to other Local Authorities were included. (Equivalent to the low risk of investing with the Government but not formally rated)

- The policy would allow investments up to one year but would only be used if market conditions improve. The current policy is overnight only.

UK Investment With Government Equity Holding of minimum of 30%

- Lloyds/HBOS and Nat West/RBS were included within UK Investment With Government Equity Holding of over 30%

- The investment allowed up to three months but the current policy is overnight and allows changes to reflect market conditions if and when they improve.

- New lower ratings criteria but the banks will not be used if the UK Sovereign rating falls below AAA.

1.21 As movements within the money markets can happen with no notice, the Treasurer retained the authority to amend this strategy in order to safeguard Fire Authority funds. As in the past, any such actions would be reported to the next Fire Authority meeting.

2. **Formulating a Strategy for 2012/13**

The Treasury management activity during 2011/12 to date.

<u>Borrowing</u>

2.1 The Fire Authority's past strategy was to borrow to support the Capital Programme and lend out other cash (rather than using internal borrowing). Historically, this meant that the interest rate earned on cash balances was higher than the interest rate paid on loans from the Public Works Loans Board (PWLB). In the more recent current financial climate, this interest rate differential has been removed. No new PWLB borrowing has taken place since January 2008 and is unlikely in the current climate.

2.2 Our opportunity to restructure our debt has been significantly reduced since October 2010 as a result of the PWLB increasing all of its lending rates by 1% but it did not increase the rate of interest used for repaying debt.

<u>Investments</u>

2.3 Base interest rate has stayed at 0.5% in 2011/12 to date. The rate is the lowest ever rate and the rate has remained unchanged for the longest period on record.

2.4 There have been continued uncertainties in the markets during the year to date. There was a financial crisis in the euro-zone, triggered by the threat of a sovereign debt default by Greece. The sovereign ratings of certain European countries were downgraded and although our policy does not allow us to invest with their banks, these concerns affect the counterparties used within our strategy.

2.5 Credit ratings have been used to monitor the banks used under our strategy, additional market information (for example Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model as well as media updates etc.) has been used to assess the relative security of different investment counterparties.

2.6 The strategy for 2011/12, agreed in February 2011, 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. The changes to this Strategy have been made (see paragraphs 1.11 to 1.19) because of the continued uncertainties in the market.

2.7 Since the amendment to the Strategy in December, investments to two banks have been withdrawn as a result of falling below our set criteria. All of our investments continue to be on call (overnight only).

Comment from Sector (Treasury advisors) on the outlook for 2012/13

2.8 Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
- a continuation of high levels of inflation;
- the economic performance of the UK's trading partners, in particular, the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;

- elections due in the US, Germany and France in 2012 or 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

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

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

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

3. **Proposed Strategy for 2012/13**

3.1 In the current economic climate, it is essential that a prudent approach is maintained. This will be achieved through investing with selected banks and funds which meet the Fire Authority's rating criteria. The emphasis will continue to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than on yield. The proposed strategy continues with this prudent approach. The strategy for 2012/13 must continue with this prudent approach and no changes are proposed to the revised strategy for 2011/12 agreed by the Fire Authority in December.

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

3.3 It is not expected that any new external borrowing will be undertaken in the next 15 months; however, the limits set out in paragraph 4 would allow such borrowing. External borrowing will only take place if the rates available are so low that the long term benefits will significantly exceed the short term cost.

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

3.5 The Fire Authority balances will be invested in line with the following specific policy:-

(A) UK Investment Without Government Equity Holding

<u>Up to a maximum of £3m deposited up to a period of up to one year</u> with any of the following: -

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

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

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

Ratings Agency	Long Term	Short Term
Fitch	AA-	F1+
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Standards and Poors	AA-	A-1+

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

We are taking 30% as a minimum level of significant associated company influence. In practice it serves as a trigger to formally review our position.

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

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

Bank
Lloyds/HBOS Nat West/RBS

Only banks which meet the following minimum rating criteria for at least two of the designated agencies are to be used. The banks will not be used if the UK Sovereign rating falls below AAA.

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

The policy retains the ability to revert to some, or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tighten. Other very safe alternative investments will be explored when they become available.

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

3.6 The strategy going forward must continue with the policy of ensuring minimum risk, but will also need to deliver secure investment income of at least bank rate on the Fire Authority's cash balances. (The actual target for 2012/13 is bank rate plus 0.4%). The reduction from bank rate plus 0.5% for 2011/12 reflects the lower rates available in the market on the change to more prudent investments.

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

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

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

4. Authorised Limit for borrowing in 2012/13

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

4.2 The Authorised Limit for borrowing determined for 2012/13 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

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

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

4.4 The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2012/13 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2012/13 and next two financial years) it is considered prudent at this stage to base the limits upon 2 years. This approach was agreed in a previous strategy report to the Fire Authority in June 2004 and has since worked well.

4.5 For 2012/13, it is estimated that the authorised borrowing limit is £13.982m (see table 5.2).

5. Prudential indicators and Treasury Management indicators

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

i. Authorised limit for borrowing (see paragraph 5.2, 5.3 5.4 and 5.5 below)
ii. Interest rate exposure (see paragraph 5.6 below)
iii. Maturity structure of debt (see paragraph 5.7 below)
iv. Compliance with the treasury management code of practice (see paragraph 5.8 below)
v. Maturity structure of investments (see paragraph 5.9 below)

5.2 <u>Authorised limit for borrowing</u>

	2011/12 Likely actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Opening CFR	**11,449**	**11,177**	**11,499**	**11,313**
Capital Investment	1,563	4,808	3,785	3,280
Sources of Finance	(1,203)	(3,853)	(3,340)	(2,835)
MRP	(420)	(447)	(460)	(453)
MRP – Finance Leases	(212)	(186)	(171)	(133)
Closing CFR	**11,177**	**11,499**	**11,313**	**11,172**
Less Finance lease liability	(580)	(394)	(223)	(90)
Underlying borrowing requirement	**10,597**	**11,105**	**11,090**	**11,082**
Advance borrowing allowed (net borrowing for next year)		445	445	295

Operational boundary	****10,170**	**11,550**	**11,535**	**11,377**
Short term	2,420	2,432	2,444	2,456
Authorised limit	****12,590**	**13,982**	**13,979**	**13,833**
Actual borrowing to date	**11,123**			
Borrowed in advance of need*	526			

*Underlying borrowing requirement less actual borrowing to date
** Operational boundary and Authorised limit agreed in 2011/12 Strategy report

5.3 Borrowing must not exceed the authorised limit in any year and it is below the estimated authorised limit set for 2011/12 and 2012/13.

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

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

5.6 Interest rate exposure

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

Borrowing	2011/12 Projected Outturn	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	100%	100%	100%	100%
Variable Rate Exposure				
Upper Limit	0%	0%	0%	0%
Lower Limit	0%	0%	0%	0%

Lending

Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%
Variable Rate Exposure				
Upper Limit	0%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

Borrowing and Lending combined

Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	42%	42%	42%
Variable Rate Exposure				
Upper Limit	0%	58%	58%	58%
Lower Limit	0%	0%	0%	0%

5.7 Maturity structure of debt

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

	Lower Limit	Upper Limit	Current
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	0%
24 months and within 5 years	0%	60%	1%
5 years and within 10 years	0%	80%	6%
10 years and within 20 years	0%	80%	40%
20 years and within 30 years	0%	80%	18%
30 years and within 40 years	0%	80%	8%
Over 40 years	0%	80%	27%

5.8 Compliance with the Treasury Management Code of Practice

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

5.9 Maturity structure of investments

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

6. **Minimum revenue provision statement**

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

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

6.2 Following accounting changes the CFR includes other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.

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

£000	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total CFR	**11,177**	**11,499**	**11,313**	**11,172**
Movement in CFR	**-272**	**322**	**-186**	**-141**

Movement in CFR represented by				
Net financing need for the year (above)	360	955	445	445
MRP and other financing movements	-632	-633	-631	-586
Movement in CFR	**-272**	**322**	**-186**	**-141**

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

Minimum Revenue Provision (MRP) Statement

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

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

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

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

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

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

6.11 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their “Statutory MRP Guidance” which allows MRP to be equivalent to the existing lease rental payments. The implications of these changes are now being reflected in the Fire Authority’s MRP policy for 2012/13.

6.12 The policy recommended for adoption from 1 April 2012 retains the key elements of the policy previously approved, but now incorporates the IFRS changes (re finance leases) and the consequential updated Government Guidance. The policy for 2012/13 is therefore as follows:-

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

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

6.14 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

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

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

7. Treasury Management Advisers

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

- Technical support on treasury matters, capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;

- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters.

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

7.2 Sector 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 provider to their clients. The advice will be monitored regularly to ensure an excellent level of advisory service provided to the Fire Authority.

8. **Treasury Management policy statement for 2012/13**

8.1 It is recommended that the Treasury Management Policy Statement should be unchanged from that already agreed for 2011/12. The statement is set out below:

> East Sussex Fire Authority defines its treasury management activities as:
>
> “The management of the organisation’s cash flows, its banking, money market and capital market transactions, the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
>
> The Fire Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
>
> This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.