DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 19/07

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	12 February 2019
SUBJECT OF THE REPORT	Treasury Management 2019-20
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	This report incorporates the Treasury Management Strategy, Prudential Indicators and the Minimum Revenue Provision Policy for 2019-20. Under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management (TM) Code of Practice, the Dorset & Wiltshire Fire and Rescue Authority (the Authority) is required to publish a Treasury Management Strategy each year. The strategy supports the provision of all services and functions by the management of the Authority's cash flow, debt and investments operations, and effectively controls the associated risks, and the pursuit of optimum performance consistent with those risks. The Authority must balance the risks with due regard to security, liquidity and investment yield. The CIPFA Prudential Code, aligned to the CIPFA TM Code of Practice, also highlights particular aspects of the planning of capital expenditure and funding. The Prudential Code requires the publication and monitoring of certain Prudential Indicators which inform Members of the scope and impact of capital spend and the treasury management activities of the Authority.

	Aligned to the capital programme and the Treasury Management Strategy is the annual Minimum Revenue Provision Policy Statement. This is the Authority's policy on setting aside revenue funds each year as provision for the repayment of debt. Section 3 of the report includes the statement for 2019-20.
RISK ASSESSMENT	Treasury Management activities must carefully balance the acceptance and spread of borrower risk, against the requirement to maximise returns. In addition, a potential budget risk exists if there is a shortfall against the budget for investment returns, or an increase against budget for the cost of borrowing. The Authority is currently in an 'under-borrowed' position resulting from past capital programmes, utilising internal resources, such as reserves, to offset the need to borrow. This issue is being addressed by officers and impacts on the cost of long term borrowing moving forward.
COMMUNITY IMPACT ASSESSMENT	No separate impact assessment has been carried out in bringing forward this report.
BUDGET IMPLICATIONS	The budget implications of this report are included as part of the Budget 2019-20 report elsewhere on this agenda.
RECOMMENDATIONS	Members are asked to approve: 1. Treasury Management Policy Statement and Practices (including the Annual Investment and Treasury Management Strategy) – Appendix A 2. Capital and Treasury Management Prudential Indicators (as per Appendix B) 3. Capital Strategy 2019-20 (as per Appendix C); and 4. The Minimum Revenue Provision Policy Statement as defined in paragraph 3.11.
BACKGROUND PAPERS	CIPFA Treasury Management in the Public Services Code of Practice CIPFA Prudential Code for Capital Finance in Local Authorities.

APPENDICES	Appendix A - Treasury Management Policy Statement and Practices 2019-20 Appendix B - Capital Prudential Indicators 2019-20 to 2022-23 Appendix C - Capital Strategy 2019-20
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1. Introduction

1.1 In compliance with the CIPFA TM in the Public Services: Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities, the Authority is required to approve and adopt as best practice an Annual Investment and Treasury Management Strategy (Appendix A).

1.2 In addition to approving the Annual Investment and Treasury Management Strategy, Members are also asked to approve the Prudential Indicators for Capital and Treasury Management and the Capital Strategy as required by the Prudential Code.

1.3 Aligned to the 2019-20 Capital Programme, the policy for the repayment of debt, the Minimum Revenue Provision (MRP) Policy statement also needs to be approved.

2. Treasury Management Strategy

2.1 The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the Services activity. This involves the organisation of the cash flow and, where investment plans require, the organisation of appropriate borrowing facilities.

2.2 The Authority's treasury management activities are strictly regulated by statutory requirements and professional Codes of Practice. The Authority adopts the CIPFA Code of Practice (the Code) (and its revisions), which in itself is a key prudential indicator. As a result of adopting the Code, the Authority agrees to produce and maintain a Treasury Management Policy Statement (TMPS) detailing the policies and practices governing the Authority's treasury management activities.

2.3 It is a requirement for an annual strategy to be reported to the Authority outlining the expected treasury management activity and to explain both the risks and the management of the risks associated with the treasury management service. A mid-year update report and a final report after the year end are also required under the Code.

2.4 Key points in the treasury management strategy are as follows:

- The Bank Base Rate was increased to 0.75% in August 2018, and it is anticipated that there may be one or two small increases before the end of 2020 before ending at 2% in early 2022
- Borrowing rates will continue to increase, but only marginally
- Following a review, the limits placed on the maturity structure of borrowing have been amended. This gives the Authority more scope for short term borrowing,

particularly borrowing from other local authorities, where interest rates are more favourable. The changes to limits are shown in Appendix B

- The Authority has used internal resources to fund capital for some time, as an alternative to borrowing, but this must be balanced with a need to manage adequate cash resources. The Authority will not borrow for the explicit purpose of re-investment
- There remains significant uncertainty over economic conditions and market trends, post Brexit
- Within the strategy, lending limits are regularly reviewed and are as follows:

  - ➢ Highest Quality UK Banks - lending limit £5m
  - ➢ Highest Quality Overseas Banks – lending limit £5m
  - ➢ 100% Owned Subsidiaries - lending limit £3m
  - ➢ Top Ten Building Societies - lending limit £1.5m
  - ➢ Other F1/A Rated Banks and Building Societies - lending limit £1.5m
  - ➢ Other Local Authorities - lending limit £3m

3. Minimum Revenue Provision (MRP) Policy Statement

3.1 Local authorities are required to set aside some of their revenue budget each year as provision for the repayment of debt taken out to support capital expenditure.

3.2 The detailed rules and formulae to be used were laid down in Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulation 2003. These were subsequently amended, and the amendment regulations revise Regulation 28, thereby requiring us to set aside each year an amount of Minimum Revenue Provision (MRP) which is considered to be ‘prudent’.

3.3 The broad aim of prudent provision for repayment of debt is to ensure that the debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of the grant.

3.4 Four options for prudent provision are recommended, under the regulations, subject to conditions being applied to the options, although alternative methodologies are not ruled out:

- Option 1: Regulatory Method
- Option 2: Capital Financing Requirement (CFR) Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

3.5 Option 1: Regulatory Method - MRP is determined in accordance with the former regulations (Regulation 28), as if it had not been revoked. MRP is equal to 4% of the adjusted CFR at the end of the preceding financial year.

3.6 Option 2: CFR Method - MRP is equal to 4% of the CFR at the end of the preceding financial year. This is technically a simpler alternative to Option 1, which may be used in relation to supported debt, and in most cases results in a higher level of provision than Option 1.

3.7 Option 3: Asset Life Method - MRP is determined by reference to the life of the asset. There are two main methods by which this can be achieved, equal instalment method or annuity method, both of which allow authorities to make additional voluntary provisions, in which case an appropriate reduction in the level of MRP can be recognised in future years.

3.8 The MRP provision will normally commence in the financial year following the one in which the expenditure is incurred, however, under Option 3, the Authority may treat the asset life as commencing in the year in which the asset becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. In the case of significant building projects, for instance, this could perhaps be two to three years, making them more affordable.

3.9 Option 4: Depreciation Method - MRP is equal to the depreciation provision required in respect of an asset.

3.10 Options 1 and 2 can only be considered for government supported borrowing. These options are therefore no longer available to us for new capital expenditure - as we no longer receive support for borrowing in our finance settlement.

3.11 In 2019-20 it is proposed that Option 3 is adopted, the asset life method and therefore the Minimum Revenue Provision Policy Statement for 2019-20 would be as follows:

‘***In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Authority’s policy for the calculation of MRP in 2019-20 shall be the asset life (equal instalment) method for prudential borrowing.’***

3.12 The policy is reviewed on an annual basis and is brought to the Authority for approval before the start of each financial year. If it is proposed to vary the terms of the original MRP statement during the year, a revised statement will be put to the Authority at that time.

4. Prudential Indicators

4.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The CIPFA

Prudential Code sets out a number of indicators that enables the Authority to assess affordability and prudence.

4.2 There are Prudential Indicators that relate to Capital Expenditure, as required under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, and Prudential Indicators that relate to Treasury Management in the Public Services. The Prudential Indicators for 2019-20 are detailed in Appendix B and are recommended for approval.

5. Capital Strategy

5.1 The Prudential Code for Capital Finance also requires local authorities to publish a capital strategy. Appendix C outlines the capital strategy for 2019-20 and is recommended for approval.

6. Summary & Key Points

6.1 Under the CIPFA TM Code of Practice the Authority is required to publish a Treasury Management Strategy each year. The strategy aims to support the provision of all services and functions by the management of the Authority's cash flow, debt and investments operations, effectively control the associated risks and the pursuit of optimum performance consistent with those risks. Authorities must balance the risks with due regard to security, liquidity and investment yield.

6.2 In addition to this, the CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and funding of such expenditure. The Code requires the publication and monitoring of certain Prudential Indicators which inform Members of the scope and impact of capital spending and the treasury management associated with the cash activities of the Authority. The Code also requires the development of a capital strategy.

6.3 Aligned to the capital programme and the Treasury Management Strategy is the annual MRP Policy Statement, i.e. the Authority’s policy on setting aside revenue funds each year as provision for the repayment of debt. The MRP is based on the asset life of the assets purchased.

February 2019