DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 7

MEETING	Dorset and Wiltshire Fire & Rescue Authority
DATE OF MEETING	12 February 2016
SUBJECT OF THE REPORT	Treasury Management Policy Statement and Practices 2016/17, Minimum Revenue Provision and Prudential Indicators
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	Under the CIPFA Treasury Management Code of Practice the authority is required to publish a Treasury Management Strategy, i.e. what is the authority trying to achieve and what is the impact on our customers through treasury management? 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 for 2016/17 and 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. In addition, the CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and funding. The 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 associated with the cash activities of the Authority. This report sets out the issues for consideration and seeks agreement to the required indicators and strategies. Aligned to the capital programme and the Treasury Management Strategy is the annual Minimum Revenue Provision Policy Statement, i.e. the Authority’s policy on setting aside some of its revenue budget each year as provision for the repayment of debt. This statement is also included in the report.
RISK ASSESSMENT	The Treasury Management Policy carefully balances 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 of interest earnings, or an increase against budget in the cost of borrowing, as a result of changes to interest rates or balances. The Authority is currently in an 'under-borrowed' position, utilising internal resources, such as reserves, to offset the need to borrow. At some point this issue will have to be addressed and this will impact the costs of long term borrowing over the next three to four years.
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 Revenue and Capital Budget reports on this agenda.
RECOMMENDATIONS	Members are asked to approve: (a) Treasury Management Policy Statement and Practices (including the Annual Investment and Treasury Management Strategy) – Appendix A; (b) Treasury Management Prudential Indicators as per Section 5 (Pages 26-30), Appendix A of the Annual Investment and Treasury Management Strategy; (c) The Capital Prudential Indicators in respect of the Capital Programme 2016/17 (as per appendix B); and, (d) The Minimum Revenue Provision Policy Statement as defined in paragraph 3.12. .
BACKGROUND PAPERS	CIPFA Treasury Management Code of Practice CIPFA Prudential Code for Capital Finance.
APPENDICES	Appendix A - Treasury Management Policy Statement and Practices (including the Annual Investment and Treasury Management Strategy). Appendix B – Capital Prudential Indicators
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1. Introduction

1.1 In compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and the Prudential Code, the Dorset and Wiltshire Fire and Rescue 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 as required under the Prudential Code.

2. Treasury Management Strategy

2.1 The capital expenditure plans for the Authority are summarised in the budget report. 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 (CIPFA). The Authority adopts the CIPFA Code of Practice (and its revisions), which in itself is a key prudential indicator that it complies with. As a result of adopting the Code, the Authority also agrees to produce and maintain a Treasury Management Policy Statement (TMP) which states the policies and practices of 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 report and a final report after the year end, is also required under the Code.

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

- Base rates are anticipated to remain at a low level during 2016/17, and for the foreseeable future;
- Borrowing rates will continue to increase;
- The Authority has used internal resources to fund capital as an alternative to borrowing in the last part of the year, and will continue to do so if resources are available. The Authority will not borrow for the explicit purpose of re-investment;
- There is still significant uncertainty over economic conditions and market trends;
- The number of investors in which we are able to invest continue to decline, as we do not have sufficiently large enough cash balances to place in the market attracting interest from the banking sector. Within the strategy, the lending limits are established for the new Authority 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 Policy Statement

3.1 Local Authorities, including Fire 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 have been suggested by the Secretary of State, subject to conditions being applied to the options, although different 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 As with the existing scheme of MRP, provision for repayment of debt 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 2-3 years, making them more affordable.

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

3.10 Options 1 and 2 should only be used 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 2016/17 it is proposed to choose Option 3, the asset life method for prudential borrowing, therefore the Minimum Revenue Provision Policy Statement for 2016/17 would be as follows:-

> ‘***In accordance with the Local Authorities (Capital Finance and Accounting) (England)(Amendment) Regulations 2008, the Fire Authority’s policy for the calculation of MRP in 2016/17 shall be the asset life (equal instalment) method for prudential borrowing.’***

3.12 The policy will be reviewed on an annual basis and will be 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 should 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 The Prudential Indicators that relate to Treasury Management in the Public Services are:-

- Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services;
- Authorised limit for external debt;
- Operational boundary for external debt;
- Actual external debt:
- Upper limits on the proportion of net debt compared to gross debt;
- Upper limits for fixed rate exposure and variable rate exposure;
- Limits on maturity structure of borrowing; and,
- Upper limits on principal sums invested longer than 364 days.

4.3 In addition to this, the Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

4.4 The treasury management prudential indicators for 2016/17 are detailed in section 5 of the Annual Investment and Treasury Management Strategy (appendix A, pages 26-30) are recommended for approval.

4.5 The 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 are, as per Appendix B:-

- Capital Expenditure (as per programme);
- Capital Financing Requirement (Prudential Borrowing);
- Estimated Ratio of Financing Costs to Net Revenue Stream; and,
- Impact of New Capital Investment on Council Tax.

4.6 The Capital Expenditure prudential indicators are set out in appendix B and are recommended for approval.