DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 21/10

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| MEETING | Dorset & Wiltshire Fire and Rescue Authority |
| DATE OF MEETING | 11 February 2021 |
| SUBJECT OF THE REPORT | Treasury Management Strategy 2021-22 |
| 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 2021-22.<br><br>Under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management (TM) Code of Practice, 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.<br><br>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. |

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| | 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 2021-22. |
| 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. Additionally, borrowing is set to increase to fund the capital programme, placing additional financial pressures on the revenue budget. This issue is being addressed by Officers to ensure that the capital programme remains both sustainable and affordable. |
| COMMUNITY IMPACT ASSESSMENT | None for the purposes of this report. |
| BUDGET IMPLICATIONS | The budget implications of this report are included as part of the Budget 2021-22 Report elsewhere on the agenda. |
| RECOMMENDATIONS | Members are asked to approve the:<br>1. Treasury Management Policy Statement and Practices (including the Annual Investment and Treasury Management Strategy) – appendix A<br>2. Capital and Treasury Management Prudential Indicators 2021-22 (as set out in appendix B)<br>3. Capital Strategy 2021-22 (as set out in appendix C) and,<br>4. The Minimum Revenue Provision Policy Statement as defined in paragraph 3.11. |

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| BACKGROUND PAPERS | CIPFA Treasury Management in the Public Services Code of Practice.<br>CIPFA Prudential Code for Capital Finance in Local Authorities. |
| APPENDICES | Appendix A – Treasury Management Policy Statement and Practices (including the Annual Investment and Treasury Management Strategy)<br>Appendix B – Capital and Treasury Management Prudential Indicators 2021-22<br>Appendix C – Capital Strategy 2021-22 |
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## 1. Introduction

1.1 In compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management 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 2021-22 Capital Programme, the policy for the repayment of debt, the Minimum Revenue Provision (MRP) Policy statement 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 Service's 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 (and its revisions) and, as a result, agrees to produce and maintain a Treasury Management Policy Statement (TMP), 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 The Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2.5 The Authority currently uses Link Asset Services Treasury Solutions as its external treasury management advisors but recognises that responsibility for treasury management decisions always remains with the organisation. We will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

2.6 Following the decision by the Public Works Loan Board (PWLB) on 9 October 2019 to increase their margin over gilt yields by 100 basis points (bps) to 180 bps on loans lent to local authorities, it was necessary to consider sourcing funding at cheaper rates from other sources, for instance, other local authorities (primarily for shorter dated maturities) or other financial institutions (e.g. some banks).

2.7 The Authority's financial position has meant that new borrowing has not been necessary since October 2019 and in November 2020, the Chancellor announced the conclusion of a consultation process on PWLB borrowing arrangements, which included a return PWLB rates at 80 basis points above gilt yields for the general capital borrowing that this Authority would require.

2.8 This is important as the Authority will undoubtedly need to borrow to finance new capital expenditure, to replace maturing debt and manage cashflow, so there will be a 'cost of carry', (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost. This 'cost of carry' will be reduced now as a result of the lower PWLB borrowing rates available.

2.9 Other key points in the Treasury Management Strategy are as follows:

- The Bank Base Rate was decreased to 0.25% on 11 March 2020 and again to 0.1% on 20 March 2020. It is anticipated that it will remain at this level until at least March 2024

- Investment returns are likely to remain low during 2021-22, with little increase in the following two years, due to the economic uncertainty because of both the Covid-19 pandemic and Brexit.

- The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered, 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.

- Within the strategy, lending limits are regularly reviewed and are as follows:

- Highest quality financial institutions (UK/Overseas) - lending limit £5m per bank/£8m per group
- Other Local Authorities - lending limit £3m
- 100% Owned subsidiaries of clearing banks - lending limit £3m
- Money Market Funds – lending limit £3m
- Other F1/A rated banks/building societies - lending limit £1.5m.

## 3. Minimum Revenue Provision 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 (including Private Finance Initiatives (PFI) arrangements and finance leases).

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 2021-22 it is proposed that Option 3 is adopted, the asset life method, and therefore the Minimum Revenue Provision Policy Statement for 2021-22 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 2021-22 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 presented 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 2021-22 are detailed in appendix B and are recommended for approval.

4.3 The 2021-22 CIPFA Code of Practice on Local Authority Accounting will incorporate requirements in respect of International Financial Reporting Standard (IFRS) 16 Leases (with effect from 1 April 2022). This removes operating leases as a category for authorities to use in accounting for lease type arrangements. Where there are operating leases and similar arrangements, authorities will be required to recognise a right of use asset and associated lease liability. These changes will impact on the calculation of Prudential Indicators such as the Capital Financing Requirement and Authorised Limit and Operational Boundary. The indicators detailed in appendix A do not include any adjustment for this change and it may be necessary to review the indicators mid-year once we have fully assessed the impact.

## 5. Capital strategy

5.1 The Prudential Code for Capital Finance also requires local authorities to publish a Capital Strategy which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

5.2 The aim of this Capital Strategy is to ensure that all Members of the Authority fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

5.3 Appendix C outlines the Capital Strategy for 2021-22 and is recommended for approval.

## 6. Summary and key messages

6.1 Under the CIPFA Treasury Management 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 Minimum Revenue Provision (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.

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