Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 11**

Report to	**North Wales Fire and Rescue Authority**
Date	**18 March 2019**
Lead Officer	**Ken Finch - Treasurer**
Contact Officer	**Ken Finch**
Subject	**Capital Strategy and Treasury Management**

PURPOSE OF REPORT

1 This Capital Strategy report for 2019/20 replaces the Treasury Management report previously presented to Members. The report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of a Fire and Rescue Service along with an overview of how associated risk is managed and the implications for future financial sustainability. It summarises the overall processes and procedures that govern the purchase and financing of assets in order to enhance members' understanding of these sometimes technical areas. The report also includes the Prudential Indicators and Treasury Strategies that need approval by the Fire and Rescue Authority.

EXECUTIVE SUMMARY

2 The revenue and capital budgets for 2019/20 were approved by the Fire and Rescue Authority at its meeting of the 17 December 2018. Members approved a net revenue budget of £35.24m for 2019/20 with a further £3.1m approved for capital expenditure. The Capital Strategy has been prepared using the relevant data contained in the revenue and capital budgets approved by Members and from various policies and procedures that are in place to manage the purchase and financing of assets.

3 The Capital Strategy is outlined within appendix A with supporting appendices to provide the detailed information with regards the Prudential Indicators for 2019/20 to 2021/22 and the strategy to be followed regarding borrowing and investing the Authority's funds in the financial year 2019/20. The appendices set out:-

- overall Capital Strategy (Appendix A);
- a list of prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix B);
- the Treasury Management Strategy outlining the strategy to be followed regarding short and long-term borrowing for 2019/20 in accordance with the CIPFA code of Practice on Treasury Management (Appendix C);

- the strategy to be followed regarding the investment of Fire and Rescue Authority funds (Appendix D); and
- Minimum Revenue Provision Statement (Appendix E).

OBSERVATIONS FROM THE AUDIT COMMITTEE

4 This report was presented to the Audit Committee on the 28 January 2019 so they could review the contents before submission to the Fire and Rescue Authority. The Audit Committee is tasked with ensuring effective scrutiny of the treasury management strategy and policies and based on its findings make recommendations to the Fire and Rescue Authority. Following a presentation highlighting the key areas of the report Members of the Audit Committee recommended the report for approval by the Fire and Rescue Authority.

RECOMMENDATIONS

5 That Members approve each of the five key elements of the report as set out below:

(i) the overall Capital Strategy in Appendix A;
(ii) the Prudential Indicators set out in Appendix B;
(iii) the Treasury Management Strategy for 2019/20 set out in Appendix C;
(iv) the Investment Strategy at Appendix D;
(v) the Minimum Revenue Provision Policy at Appendix E.

INFORMATION

6 It should be noted that the strategies in the report have been prepared using guidance from the Treasury Management advisors, Arlingclose, used by Conwy County Borough Council who has the responsibility for the Fire Service Treasury function.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA’s long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.

Legal	The regulatory framework is set out in the appendices to the report.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

Appendix A

CAPITAL STRATEGY

The aim of the strategy is to make it easier for Members to understand how Capital Expenditure and Capital Financing are linked and what policies and procedures are in place to govern the purchase and financing of assets.

Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In a Fire and Rescue Authority this could include spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £1,000 are not capitalised and are charged to revenue in year.

The details of the Authority's policy on capitalisation and the treatment of assets for accounting purposes is included as an appendix to the Statement of Accounts under 'Statement of Accounting Policies'. The accounts are published on the Fire Service website every year, www.nwales-fireservice.org.uk .

The capital expenditure budgets approved by Members are as follows:

	2017/18 Actual £'000	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital expenditure	3,729	2,717	3,119	3,664	1,989

A breakdown of the capital schemes approved by Members is contained in the Medium Term Financial Strategy report which is approved by the Fire and Rescue Authority in December every year. The report is available on the Fire Service website as detailed above.

Service managers request funding for various capital schemes during the budget setting process. All requests are considered based on service needs and delivering the corporate priorities as set out in the Improvement and Well-being Plan.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing).

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The details of the changes to the CFR over the period are set out in appendix A.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%). Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term.

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. The Authority only holds investments for cash flow purposes.

Governance: Decisions on treasury management investment and borrowing are made daily and is delegated to Conwy County Borough Council as part of a Service Level Agreement where the Council manages the Treasury function on behalf of the Fire Service. Staff responsible for the day to day function must act in line with the treasury management strategy approved by the Fire and Rescue Authority on 15 December 2003. Reports on treasury management activity are presented to the Fire and Rescue Authority. The Audit Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the overall budget for the Authority.

Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Financing costs (£'000)	2,636	3,035	3,160	3,284	3,560
Proportion of net revenue stream	7.95%	9.06%	8.97%	9.13%	9.68%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Treasurer is satisfied that the proposed capital programme is prudent, affordable and sustainable due to the robust programme that the service has in place for replacing assets with approval only being given for any proposed expenditure after a cost benefit analysis has been undertaken.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer is a qualified accountant with over 40 years experience and the Assistant Chief Officer is also a qualified accountant. Staff at Conwy County Borough Council responsible for managing the Treasury Management activity are also well qualified and attend regular seminars provided by Arlingclose to ensure they are up to date with the latest developments

Where staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. Conwy currently employs Arlingclose Limited as treasury management advisers who offer advice on the Fire Service portfolio as part of the agreement. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

APPENDIX B

PRUDENTIAL INDICATORS AND CAPITAL INVESTMENT

1. INTRODUCTION

1.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2021/22. A revised code was issued in 2009 and this report complies with the requirements, which have asked that this report be subject to greater scrutiny by those charged with governance - for the Fire and Rescue Authority this is the Audit Committee.

1.2 The Capital Programme for 2019/20 was presented to the Fire and Rescue Authority on 17 December 2018, these indicators support that programme. The Authority has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Audit Committee must approve, revise and monitor at least a basic range of Prudential Indicators for the forthcoming three years.

2. THE CAPITAL EXPENDITURE PLANS

2.1 The Authority's capital expenditure plans are summarised below and this forms the first of the prudential indicators to be approved by Members. All capital expenditure in the forward programme is currently unsupported and must be funded from the Authority's own resources.

2.2 However, the Government may decide to place limits on unsupported capital expenditure by introducing a long stop control on all Local Authorities plans or, in the event of an assessment by Central Government that local plans are unaffordable at a specific Authority, it may implement a local control to limit its capital expenditure plans. No such controls were implemented during 2018/19, and it is unlikely that controls will be exercised for 2019/20.

	2017/18 Actual £'000	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital expenditure	3,729	2,717	3,119	3,664	1,989
Financed by:					
Capital receipts	-569	0	0	0	0
Capital grants	-607	0	0	0	0
Revenue	-85	0	0	0	0
Net financing need for the year	2,468	2,717	3,119	3,664	1,989

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

3.1 The second 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 Authority's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Members are asked to approve the CFR projections as below:

	2017/18 Actual £'000	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital Financing Requirement					
Opening CFR	33,662	33,917	34,494	35,206	36,221
Closing CFR	33,917	34,494	35,206	36,221	35,360
Movement in CFR	255	577	712	1,015	-861
Movement in CFR represented by					
Net financing need for the year (above)	2,468	2,717	3,119	3,664	1,989
Less MRP/VRP	-2,213	-2,140	-2,407	-2,649	-2,850
Movement in CFR	255	577	712	1,015	-861

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

3.3 The expected impact of the capital expenditure decisions above on the Authority's debt and investment position are shown in the Treasury Strategy.

4. AFFORDABILITY PRUDENTIAL INDICATORS

4.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. Members are asked to approve the following indicators:

4.2 **Actual and Estimates of the ratio of financing costs to net revenue stream**
This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream. The estimates of financing costs include current commitments and the Capital Programme approved by members in December 2018.

	2017/18 Actual %	2018/19 Revised %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Ratio	7.95	9.06	8.97	9.13	9.58

APPENDIX C

TREASURY MANAGEMENT STRATEGY FOR 2019/20 -2021/22

1. Introduction

1.1 The treasury management service is an important part of the overall financial management of the Authority's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Authority's overall capital framework. The treasury strategy considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.

1.2 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Authority adopted the CIPFA Code of Practice on Treasury Management and a Treasury Management Policy Statement on 15 December 2003. This adoption meets the requirements of the first of the Treasury Prudential Indicators. A revised policy was issued in 2010 which was approved by Members and this report is based on the new policy. CIPFA consulted on changes to the Code in 2017 which have resulted in changes to the reporting format so Members are presented with a Capital Strategy report in addition to the other Treasury information.

1.3 The Code requires an annual strategy to be reported to the Authority outlining the expected treasury activity for the forthcoming 3 years. A further mid-year monitoring report is produced and after the year-end a report on actual activity for the year.

1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. The strategy report will cover several areas as follows:

(i) The Authority's debt and investment projections;
(ii) The Authority's estimates and limits on future debt levels;
(ii) The expected movement in interest rates;
(iii) The Authority's borrowing strategy;
(iv) The Authority's investment, counterparty and liquidity framework;
(vi) Treasury performance indicators.

2. DEBT AND INVESTMENT PROJECTIONS 2018/19 – 2020/21

2.1 The current position as at 11 January 2019 is as follows:

Public Works Loan Board (PWLB) - £15,866,376 Fixed Rate
Other Local Authorities - £16,000,000 Fixed Rate

Investments - £400,000

2.2 The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

£'000	2018/19 Revised	2019/20 Estimated	2020/21 Estimated	2021/22 Estimated
External Debt				
Debt at 1 April	35,448	34,494	35,206	36,221
Movement in CFR	577	712	1,015	-861
Maturing Debt Replacement	20,000	20,000	20,000	20,000
Adjustment for prior years over borrowing	-1,531	0	0	0
Debt at 31 March	34,494	35,206	36,221	35,360
Annual change in debt	-954	712	2,023	-861
Investments				
Total Investments at 31 March	1,000	1,000	1,000	1,000
Investment change	0	0	0	0

3. LIMITS TO BORROWING ACTIVITY

3.1 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

3.2 For the first of these the Authority needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Debt at 1 April	35,448	34,494	35,206	36,221
Expected Change in Debt	-954	712	1,015	-861
Other Long Term Liabilities	0	0	0	0
Gross Debt at 31 March	34,494	35,206	36,221	35,360
CFR	34,494	35,206	36,221	35,360

3.3 The Treasurer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.4 **The Authorised Limit** – this represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Fire and Rescue Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under
section 3 (1) of the Local Government Act 2003.

3.5 **The Operational Boundary** – this indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached.

3.6 Members are asked to approve the following authorised limit and operational boundary:

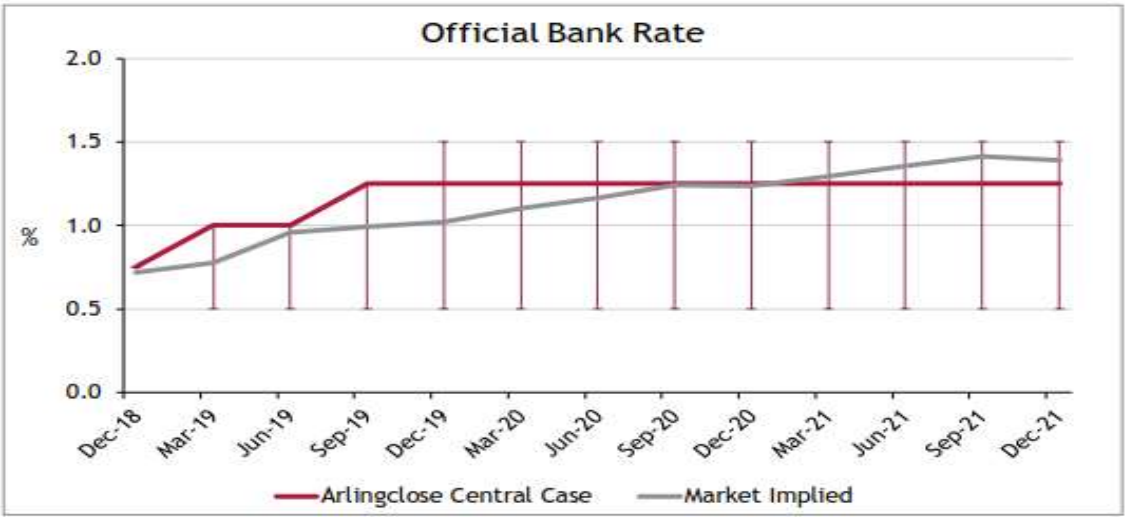
	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Authorised Limit	36,494	37,206	38,221	37,360
Operational Boundary	34,494	35,206	36,221	35,360

4. ECONOMIC BACKGROUND AND EXPECTED MOVEMENT IN INTEREST RATES

4.1 The major external influence on the Authority's treasury management strategy for 2019/20 will be dependent on the deal negotiated as part of the UK's exit rom the European Union and the trading arrangements agreed. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2019/20.

4.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA. In addition, the largest UK banks have ring-fenced their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

4.3 The prediction for the change in interest rates is shown in the table below:-



The Authority's treasury adviser Arlingclose estimate that the UK Bank Rate will rise to 1% by March 2019 from the current rate of 0.75%. There is an expectation that rates will then increase to 1.25% and will then remain at this level for the foreseeable future.

5. BORROWING STRATEGY 2019/20

5.1 The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account any risks. Shorter term fixed rates may provide lower cost opportunities in the short/medium term. The cost of new borrowing at a slightly higher rate has been factored in to the budget for 2019/20.

5.3 The PWLB has structured its lending arrangements such that debt restructuring is difficult however with the likelihood of long term rates increasing any possible debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.

5.4 The option of postponing borrowing and running down investment balances is currently being utilised. This reduces counterparty risk and hedges against the expected fall in investments returns.

6. INVESTMENT, COUNTERPARTY AND LIQUIDITY FRAMEWORK

6.1 Regulatory changes in the banking sector increases the risks associated with treasury activity. These changes, as previously reported to Members have been fully implemented. In light of the changes it is important that the portfolio of investments is diverse so as to spread the risk. Given the risks it would be prudent to use reserves and balances to temporarily fund loan debt so cash investments are kept to the minimum. It is not possible to entirely move away from investing as cash deposits to banks and building societies as some degree of liquidity is needed for cash flow purposes. It is prudent therefore to place any cash deposits short term and look at other vehicles for investing the Authority's surplus cash.

6.2 The Treasurer will maintain a counterparty list in compliance with the following criteria:-

Banks £5m limit
All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as

long term	BBB

Central Government - Unlimited
Debt management Office

Local Authorities £2m limit
All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992.

Building Societies £2m limit
Building societies with a rating (as for the banking sector).

Building Societies (Assets £1bn) -£2m /9mths limit
Building societies without a rating but with assets of £1billion or more.

6.3 The criteria set out above for choosing counterparties provide a sound approach to investment and are designed to reduce the financial risks to the Authority of investing money on the money market. However, the criteria listed above is for general guidance, other factors are considered as to whether a counterparty is removed from the list for example a 'Negative Watch' or changes to an institutions balance sheet leverage. The Institutions on the Counterparty list are monitored closely by the Treasury Consultants and treasury staff will adjust activities at short notice to protect the Authority's position. The controls detailed in the framework are subject to change according to the market conditions. Current practice is to maintain investments for cash flow purposes only and use any surplus funds to replace borrowing.

7. TREASURY PERFORMANCE INDICATORS

7.1 There are three treasury prudential indicators the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

7.2 It is recommended that the Authority sets upper and lower limits for the maturity structure of its fixed rate borrowings as follows:

	Upper Limit	Lower Limit
Under 12 Months	55%	0%
12 Months and within 24 Months	45%	0%
24 Months and within 5yrs	45%	0%
5 yrs and within 10 yrs	75%	0%
10 yrs and above	100%	0%

The upper limit for the short term borrowing position, under 12 months, remains at 55% to enable the Authority to take advantage of the low short term interest rates. The percentage of loans maturing in under 12 months is currently 52% due to the holding of £17m of short term loans with other Local Authorities. Any new borrowing will be in line with the limits set as above.

7.3 It is recommended that the Authority approve the following limits on Fixed and Variable interest rates.

	% Borrowing
Fixed Interest Rate	55 – 100
Variable Interest Rate	0 – 35

Appendix D

INVESTMENT STRATEGY

1. CURRENT OUTLOOK

1.1 **Key Objectives** - The Authority's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective.

1.2 Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.5% Base rate remaining for the foreseeable future. The Authority's investment decisions are based on comparisons between the rises priced into market rates against the Authority's and advisers own forecasts.

1.3 There is a clear operational difficulty arising from the current market conditions. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparties and the regulatory changes suggests shorter dated would provide better security and surplus funds be used as a substitute for borrowing.

1.4 The money available for investments is currently around £1.5m. The funds are used solely for cash flow purposes with any excess funds arising from reserves being used as a substitute for borrowing. At this time it is not foreseen that longer term investments will be made.

2. NATIONAL ASSEMBLY FOR WALES INVESTMENT GUIDANCE

2.1 The National Assembly for Wales issued Investment Guidance in March 2004, and this forms the structure of the Authority's policy below.

2.2 The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Authority to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 15 December 2003 and will apply its principles to all investment activity. In accordance with the Code the Treasurer has produced its treasury management practices, TMP 1(5), covering investment counterparty policy which requires approval each year.

2.3 Annual Investment Strategy - Approved Instruments

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

(i) The strategy guidelines for decision making on investments, particularly non-specified investments.
(ii) The principles to be used to determine the maximum periods for which funds can be committed.
(iii) Specified investments the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
(iv) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

2.4 The investment policy proposed for the Authority is:

(i) Strategy Guidelines –
The main strategy guidelines are outlined above with the emphasis on security and liquidity.

(ii) Investment Periods –
The Authority's policy is to lend funds for a maximum of 364 days.

(iii) Specified Investments –
These investments are sterling investments of not more than one-year maturity. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The Treasury Debt Management Office
- Other Local Authorities (except rate capped)
- All UK Banks and Building Societies with a high credit rating

(iv) Non-Specified Investments –
Non-specified investments are any other type of investment (i.e. not defined as Specified above). This includes Building Societies with no rating and lending for more than 364 days. The limit for "non-specified" investments had been set at £3m.

APPENDIX E

Minimum Revenue Provision Statement

Background

1. The Capital Financing Requirement (CFR) is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is essentially a measure of the Authority's underlying borrowing need. The Authority is required to pay off an element of the accumulated capital spend each year through a charge to the revenue account (the MRP) although it is also allowed to undertake additional voluntary payments.

2. Regulations have been issued which require the Fire and Rescue Authority to approve an MRP statement in advance of each year.

MRP Policy

3. Members approve the following MRP policy:

For capital expenditure incurred before 1 April 2018 and any subsequent expenditure the MRP policy will be to repay

- the capital expenditure incurred on Land and Buildings using the Asset Life Method-straight line (excluding the Wrexham Fire Station new build).
- and for Vehicles, Plant, Equipment and Infrastructure the MRP will be based on the estimated life of the assets.
- the expenditure incurred on the new Wrexham Fire station be re-paid over the life of the lease held with the Wales Ambulance Service Trust (50 years)

4. The above policy is in line with the Regulations and includes a change to the policy with regards the method used for expenditure incurred on Land and Buildings. The budget for 2019/20 approved by Members in December 2018 was set using the above methodology.