Appendix 1

Avon Fire Authority

TREASURY MANAGEMENT STRATEGY 2023/24 – 2025/26

Purpose

1. The purpose of this Strategy is to provide a plan for the management of the Fire Authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2. The Fire Authority regards the successful identification, monitoring and control 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 Fire Authority.

3. Effective Treasury Management will provide support towards the achievement of the Fire Authority's approved business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable, comprehensive performance management techniques within the context of effective risk management.

Key Principles and Objectives of a Treasury Management Strategy

4. The key principles and objectives of a robust Treasury Management Strategy are:

    - To support the Fire Authorities strategic priorities approved within the Service Plan.
    - To ensure Value for Money is attained on public spending.
    - Affordability within the approved Annual Budget and Medium Term Financial Plan (MTFP).
    - Ethical investment is adopted in all investments.
    - Minimising risk to public funds.
    - To accord to the required prudential indicators, to ensure external borrowings on capital expenditure are affordable, prudent and sustainable.

- To ensure the Treasury Management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- To ensure Treasury Management and other investment decisions are taken in accordance with professional good practice.
- To ensure the Fire Authority has the required liquidity to undertake its activities, including funding the approved capital programme.

5. Under section 12 of the Local Government Act 2003, the Authority has the power to invest for ‘any purpose relevant to its functions’ and ‘for the purposes of the prudent management of its financial affairs’.

Treasury Management Policy

6. The Fire Authority defines its Treasury Management activities as:

   - The management of the Fire Authority’s borrowings, investments and cash flows.
   - Its banking, money market and capital market transactions.
   - The effective control of the risks associated with those activities.
   - The pursuit of optimum performance consistent with those risks.

7. The Fire Authority regards the successful identification, monitoring and control 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 Fire Authority.

8. The Fire Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principals of achieving Value for Money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

9. The Fire Authority’s high level policies for borrowing and investments are:
   - The Fire Authority’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Fire Authority transparency and control over its debt.
   - The Fire Authority’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Fire Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

Treasury Management Practices

The CIPFA Code of Practice on Treasury Management in the Public Services (2021) recommends Treasury Management Practices (TMPs) are set out, which will support the organisation to achieve these objectives and outline how it will manage and control these activities.

10. The Treasury Management function is undertaken on behalf of the Fire Authority by Bristol City Council (BCC), in conjunction with the Finance Team, under the terms of a Financial Services Contract. Treasury Management practices will be reviewed by the Head of Finance and the Financial Accountant role (incorporated within the new Finance Structure), working with BCC technical leads during 2023/24.

Statutory & CIPFA Code Requirements

11. The Fire Authority is required to adhere to the Local Government Act 2003 and by regulation 24 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, to have regard to any prevailing CIPFA Treasury Management Code of Practice.

12. The Fire Authority must determine its Treasury Management decisions prudently and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (2021) and the revised CIPFA Code of Practice for Treasury Management in the Public Services (2021).

13. The Fire Authority must be able to monitor and review its ability to borrow and invest effectively, demonstrating Value for Money and affordability.

14. As part of the Fire Authority's ongoing Treasury Management Strategy, reference to the CIPFA Prudential Code for Capital Finance in Local Authorities (2021) needs to be adhered to.

15. External borrowing to fund the Capital Programme has continued to be deferred to date. This has been achieved by utilising internal sources of funding, mainly relating to the unused capital receipt from the sale of the previous HQ, which equated to £18m, and underspends from previous Capital Programmes. As confirmed within the 2023-2026 Capital Programme, additional external borrowing may need to commence towards the end of 2024/25. This will be subject to the utilisation of available reserves in the first instance and assumes all projected capital spend takes place in line with the proposed timescales. If this is the case, the Fire Authority will require £318k of borrowing in 2024/25 and £2.7m in 2025/26.

16. In considering additional external borrowing, the CIPFA Prudential Code requires authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of prudential indicators. The Prudential Code has been developed alongside the Treasury Management Code and it is important for the Fire Authority to be aware of the interaction between the two codes. Compliance with both codes is a statutory requirement for local authorities in the UK.

17. As confirmed within the 2023-26 Capital Strategy, the Prudential Code recognises that, in making its capital investment decisions, the Fire Authority must take into consideration its strategic objectives included in its Service Plan. The code allows the Fire Authority to borrow external funding as part of its funding options evaluation, to ensure Value for Money.

Existing Fire Authority Loans

18. At present, the Fire Authority has loans totalling £7m owed to the Public Works Loan Board (PWLB) as shown below.

Loan Period (years)	Start date	End date	Financial year		Interest rate
15	**05/03/2015**	**05/03/2030**	**2029/30**	**£3,500,000**	**2.99%**
25	**05/03/2015**	**05/03/2040**	**2039/40**	**£3,500,000**	**3.33%**

These loans are provided on an interest only basis and additional repayment estimates are included within the revenue budgets to ensure that the Service is able to fund the repayments once due.

Economic Forecast

19. Bristol City Council (BCC), the Fire Authority's Treasury Management advisors, in conjunction with their professional advisors, provide economic forecasts and interest rate movement forecasts to the Fire Authority.

20. The last economic forecast, provided in January 2023, advised the following:
    - The Monetary Policy Committee demonstrated its anti-inflation credentials by delivering a succession of rate increases in 2022. The base rate is now 3.50% and is expected to peak at around 4.50%.
    - Despite the cost-of-living squeeze that is still taking place, 2022's interest rate rises and fiscal tightening have resulted in the CPI measure of inflation having peaked at close to 11% in Q4 2022.
    - The Bank of England will want to loosen monetary policy when inflationary pressures have eased, though this will be a balancing act between managing inflation and a recessionary economy.
    - Public Works Loan Board rates (5 to 50 years) are, generally, in the range of 4.30%.
    - BCC's advice is as follows: '*Our long-term (beyond 10 years) forecast for Bank Rate stands at circa 2% - 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context… …temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023*'.
    - Ongoing labour shortages, the war in Ukraine and supply-side constraints continue to add significant uncertainty to economic forecasts.

Treasury Management Borrowing Approach

21. The main reason the Fire Authority needs to undertake external borrowing is to fund the 2023-2026 Capital Programme. As shown in the main report to the Capital Strategy, the Fire Authority is proposing projected prudential borrowings of up to £2.981m over the next 3 years. This assumes there is no slippage in the Capital Programme. To ensure Value for Money and affordability, the financing of the Capital Programme will be through the utilisation of usable reserves, thereby reducing the cost of borrowing to the Fire Authority.

22. In line with the Treasury Management Strategy, the following approach to borrowing will be applied:
    - The Fire Authority will take the most appropriate form of borrowing depending on the prevailing interest rates at the time. This information will be supplied through the Treasury Management SLA provided by Bristol City Council (BCC) and the Treasurer, under delegated powers, will make secure the required external borrowing, in line with Value for Money principles.
    - The strategy of deferring borrowing by utilising usable reserves and reducing investment balances has been applied throughout 2022/23. This approach will continue to be applied in future years until balances are reduced to adequate liquidity requirements, unless it was felt that there was a significant risk of a sharp rise in interest rates.

23. The Fire Authority's borrowing strategy will consider new borrowing in the following ways:

    - The cheapest borrowing will be utilising internal cash and reserve balances.
    - PWLB loans for up to 10 years where rates are expected to be significantly lower than rates for longer periods.
    - PWLB loans in excess of 10 years where rates are considered to be low and offer the Fire Authority the opportunity to lock into low value long-term finance.
    - Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt (e.g. Banks/Pension Institutions) in the debt portfolio. PWLB standard interest rates are currently around 4.30%.

24. Market debt is currently considered to be less attractive to the Fire Authority than PWLB for the following reasons:
    - UK banks are not currently very active in the local authority debt market, limiting options.
    - The scale of the Authority's expected borrowings eliminates larger scale funding opportunities (e.g. bond issues) and is likely to deter other lenders such as commercial banks.

- PWLB is very accessible – market debt (which may have a more attractive headline rate) will involve additional fees, considerable support and documentation, ongoing conditions to be met and time to drawdown the funds.
- Market rates are not published as they are commercially sensitive – to obtain a rate, the Authority would need to commence an application, obtain a credit rating, etc.

25. The most significant consideration from a Treasury Management perspective is the timing and duration of additional external borrowing. Should borrowing be deemed advantageous, the Fire Authority may seek to borrow long-term loans (25 year) below a target rate of 3.00% and short-term medium term (10–15 year) loans below a target rate of 2.50%.

26. There is uncertainty over future interest rate movements and as such the Fire Authority will take a cautious approach to its Treasury Management Strategy. This uncertainty is compounded by global volatility arising from the war in Ukraine and the current surge in inflationary pressures in the UK and elsewhere. As highlighted by BCC's economic forecast, there is much uncertainty surrounding the economy and this should be factored into the Fire Authority's borrowing approach.

27. Temporary Borrowing – The Fire Authority will seek to undertake temporary borrowing loans (less than one year) to cover day-to-day cashflow requirements as and when required. Such a decision will be based on the availability of and access to cash in deposit accounts and other money market funds, for example held by Bristol City Council, to consider the most efficient method for the Fire Authority.

28. Repayment of Debt (Minimum Revenue Provision (MRP) Policy) - The Authority is required by regulations, issued under the provisions of the Prudential Code, to make "prudent provision" for the redemption of debt. For supported borrowing and unsupported borrowing incurred prior to the 1 April 2008, the MRP will be calculated using the regulatory method as permitted under the guidance. The amount required to be set aside under this method is 4% of the Authority's Capital Financing Requirement. In respect of unsupported borrowing incurred after the 1 April 2008, the debt will be repaid in equal annual instalments over the life of the class of assets that it is being utilised to fund. The balance of outstanding unsupported borrowing taken after 1 April 2008 will be deducted from the Authority's Capital Financing Requirement to allow the Minimum Revenue Provision of 4% to be calculated. The repayment of unsupported borrowing based on the life of the assets will then be added to this figure to arrive at the total MRP amount required to be set aside for the repayment of debt each year.

Treasury Management Investment Approach

29. The current investment strategy is to invest all day to day cash balances in Bristol City Council (BCC), the Fire Authority's Financial Services provider, which effectively is at zero risk. Interest is then paid on these balances based

on the SONIA rate less 25bps (currently 3.18%). In addition the Fire Authority's strategy is to reduce additional new borrowings where possible and fund some of the existing capital programme by utilising available reserves and cash balances. This enables the Fire Authority to reduce its cash balances and thus reduce counterparty risk exposure, as well as providing a hedge against the fall in investments returns.

30. The Fire Authority's investment approach remains consistent, with the primary objectives of:
    i. Safeguarding the re-payment of the principal and interest of its investments on time.
    ii. Liquidity – adequate cash resources, borrowing arrangements, overdraft or standby facilities are available, to achieve the Fire Authority's business/service objectives.
    iii. The level of investment return.

31. The primary principle governing the Fire Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

32. One of the key principles of a robust Treasury Management Strategy is to invest ethically. AFA is working towards this principle.

33. As part of the Treasury Management service BCC maintain a counterparty list in compliance with the following criteria. The criteria is monitored and will be revised if necessary and submitted to the Fire Authority for approval.

34. The minimum rating criteria, which is set by BCC, uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the agreed minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the minimum criteria, the other does not, that institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

35. Credit rating information is supplied to BCC, by their treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list maintained by BCC. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to BCC's officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum approved criteria could result in that counterparty being suspended from use, with all others being reviewed in light of market conditions and the applicable action taken by BCC's treasury management team.

36. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 - Good Credit Quality – BCC only use banks which:
    i. Are UK banks;
    ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA-.

  And have, as a minimum, the following Fitch (or equivalent Moody's and Standard and Poor's) credit ratings (where rated):

    i. Short Term – *F1 (or equivalent)*
    ii. Long Term – *A- (or equivalent)*

- Banks 2 – Part nationalised UK banks –Royal Bank of Scotland (including subsidiaries). This bank can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – BCC's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank Subsidiary and Treasury Operations – BCC will use these where the parent bank has the necessary ratings outlined above.
- Building Societies – BCC will use all Societies which:
    i. Meet the ratings for banks outlined above;

- Money Market Funds (CNAV - Constant Net Asset Value) – AAA rated (sterling)
- Money Market Funds (LVAV - Low Volatility Asset Value) – AAA rated (sterling)
- Money Market Funds (VNAV - Variable Net Asset Value) – AAA rated (sterling)
- UK Government (including gilts and the DMADF)
- Local Authorities, Parish Councils etc.

BCC apply a limit of £100m to the use of Non-Specified investments. The limit applied for the Fire Authority is £10m, as approved by the Fire Authority in previous Treasury Management Strategies.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above, as per confirmation from BCC. In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;

- Sector limits will be monitored regularly for appropriateness.

37. Use of additional information other than credit ratings – Additional requirements under the Code requires the Authority to supplement credit rating information. Whilst the application of credit ratings provides the pool of appropriate counterparties, before making any specific investment decisions, BCC's officers will also apply additional operational market information. This additional market information (for example Credit Default Swaps (CDS), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.
Time and Monetary Limits applying to Investments – Based upon the time and monetary limits set by BCC for institutions on their Counterparty List the time and monetary limits for the Fire Authority are as follows (these will cover both Specified and Non-Specified Investments). The table illustrates the long-term credit ratings:

	Fitch (or equivalent)	Money Limit £m	Time Limit
Banks 1 Higher Quality	AAA	£5m	5 years
Banks 1 Medium Quality	AA-	£2m	3 years
Banks 1 Lower Quality	A-	£1m	1 year
Banks 2 – part nationalised	n/a	£15m	1 Year
Limit 3 Category – Bristol City Council's banker (not meetings bank1 / 2)	-	£100k	liquid
Other Institutions limit*		£10m	1 Year
DMADF	AAA	unlimited	1 year
Local authorities		£10m	5 years
Money Market Funds (Including CNAV, LVNAV, VNAV)	AAA	£10m	liquid

*The Other Institution Limit will be for Gilt and Supranational investments. These are all considered high quality names. No limit applies to investments with BCC.

38. In the normal course of cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

39. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Fire Authority's liquidity requirements are safeguarded. This will also be limited by the longer-term investment limits.

40. Economic Investment Considerations - Expectations on shorter-term interest rates, on which investment decisions are based, are that rates will rise . The Fire Authority's investment and borrowing decisions are based on comparisons between the rises priced into market rates with those forecast by BCC and their advisers.

41. The Fire Authority will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness, which make longer term deals worthwhile and within the risk parameters set.

42. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under exceptional market conditions the Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the market returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

43. The Fire Authority normally invests with BCC, who are considered to be zero risk, although investments have previously been made with counterparties classified under category "Bank 1" identified above. Other restrictions could be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government.

Key Risks

44. Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk will be managed in accordance with the strategy and with advice from BCC and external treasury management advisors. The Fire Authority will act in accordance with the Authority's Treasury Management Strategy and Policy and CIPFA's Standard of Professional Practice on Treasury Management. There are several risks attached to a Treasury Management Strategy, with the key risks being identified as follows:

- **Interest Rate exposures** – this is concerned with the balance between fixed and variable rate loans and the associated risk in interest changes.
- **Maturity Structures** – concerning the profile of loan repayment periods and associated risks of refinancing.
- **Management of counterparty risk** - to minimise the risk of loss on investments.
- **Liquidity** - to ensure adequate availability of funds to meet short term needs as they arise.
- **Return on investments**– to set out investment return targets and performance.

Given the current economic and financial market turmoil as a result of coronavirus, significant inflationary pressures in the UK and uncertainty surrounding interest rates, the current forecasts included within the attached strategy may need to be revised. Members will be kept updated as part of the Fire Authority reporting process.

Mitigation of Risks

45. The aforementioned risks will be mitigated as follows:

- Monitoring of performance against targets will be reported to Members. There are risks associated with Treasury Management external funding and the associated financial impacts. These are set out within the Treasury Management Strategy. The risks are reduced by ensuring that:
    - Strategic planning is undertaken to demonstrate objective prioritisation.
    - Treasury Management option appraisals are undertaken for all significant capital projects to demonstrate Value for Money.
    - Bristol City Council provide updated technical Treasury Management services, through the Fire Authority's Financial Services SLA.

Glossary of Key Terms – Treasury Management

AAA rating
The highest grade assigned to a debt obligation by a rating agency. It indicates an u nusually strong capacity to pay interest and repay principal. Also called triple A, this rating is reserved for instruments that carry virtually no risk, e.g. government gilts.

Affordable **Capital Expenditure Limit**
The amount that the Fire Authority can afford to allocate to capital expenditure.

Authorised Limit for External Debt
This is a limit for total Fire Authority external debt as set by the Fire Authority based on debt levels and plans.

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the annual Statement of Recommended Practice (SORP) and for which the Fire Authority are able to borrow.

Capital Financing Requirement
This is a Prudential Indicator that can be derived from the information in the Council's Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy who produce guidance, codes of practice, and policy documents for Local Councils.

CNAV (Constant Net Asset Value) are short-term MMFS. Funds must invest 99.5% in government assets. Units in the fund are purchased or redeemed at a constant price rounded to the nearest percentage point.

Counterparty
Another organisation involved in a deal i.e. if the Fire Authority enters a deal with a bank then the bank would be referred to as the "Counterparty".

CPI
The Consumer Price Index – calculated by collecting and comparing prices of a set basked of goods and services as brought by typical consumer, at regular intervals over time.

DMADF
Stands for Debt Management Account Deposit Facility. The Debt Management Account Deposit Facility is a facility offered to pre-authorised UK Local Authority Treasury Managers wishing to deposit funds on a fixed term basis with central government, thus ensuring maximum safety, liquidity and flexibility for them, and, at the same time, offering a possible cost saving for the Government's own cash management operations.

Equity
A share in company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

Fitch, Moody's and Standard & Poor's (S&P)
All three are credit ratings agencies, considered the 'big three' within the industry. They provide long-term and short-term investment ratings. These ratings are used as an evaluation of credit risk of a prospective debtor, predicting their ability to pay back the debt and an implicit forecast of the likelihood of the debtor defaulting.

Fitch's long-term ratings range from: AAA to D
Fitch's short-term ratings range from: F1+ to D
Moody's long-term ratings range from: Aaa to C
Moody's short-term ratings range from: P-1 to Not Prime
Standard & Poor's long-term ratings range from: AAA to D
Standard & Poor's short-term ratings range from: A-1+ to D

The minimum Sovereign AA- rating is taking the lowest credit rating of a country from the 3 main rating agencies (Fitch, Moody's and S&P). The sovereign rating of Banks domiciled outside of the UK, require a minimum sovereign rating of AA- to qualify to invest.

Fixed Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

Gilts
Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on base rate expectations, and on market conditions.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

Gilt Yields
A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

Government Money Market Fund
Money Market Funds that invest solely in government securities, or reverse repurchase agreements backed by government securities.

Incremental Impact of Capital Investment Decisions

These are Prudential Indicators that reflect the impact on Council Tax and Housing Rents of movements in projected and estimated capital expenditure within and between financial years.

LIBID
Stands for 'London Interbank Bid Rate'. It is the average rate that banks are willing to pay for euro-currency deposits in the London interbank market.

LVNAV (Low Volatility Net Asset Value) are short-term MMFS. Funds are primarily invested in money market instruments, deposits and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the underlying assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00).

MHCLG
Stands for The Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government).

Money Market Funds (MMF)
A well rated highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF. MMFs are split into four types; CNAV, LVNAV, Short-term VNAV & Standard VNAV.

Net Borrowing Requirement
This is the difference between the Fire Authority's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

Operational Boundary
This is a level of debt set by the Fire Authority at lower than the Authorised Limit and which the Fire Authority's debt levels should not normally exceed during normal operations.

Prudential Code
Fire Authorities are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities that supports local authorities in taking decisions on capital investment.

The Key objectives of the Code are to ensure, that
- Local Authorities and Fire Authorities capital investment plans are affordable, prudent and sustainable;
- Treasury management decisions are taken in accordance with these plans;
- Local strategic planning, asset management planning and proper option appraisal are supporting these capital investment decisions.

These requirements include the production of Prudential Indicators.

Prudential Indicators
Prudential Indicators are set-out in the Prudential Code. These are a set of financial indicators and limits that are calculated in order to demonstrate that Councils and Fire

Authorities capital investment plans are affordable, prudent and sustainable. These prudential indicators are used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management.

PWLB
The Public Works Loans Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies.

PWLB Rates
The interest rates chargeable by the Public Works Loans Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the close of business on the preceding business day. PWLB rates are typically the benchmark used by local authorities though may not always be more attractive than market debt.

Short-term VNAV (Variable Net Asset Value) MMFs are primarily invested in money market instruments, deposits and other MMFs. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).

SONIA (Sterling Overnight Index Average) reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is now the preferred benchmark for sterling risk-free rates.

Specified & Non-Specified Investment
Specified investments are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Service has the right to be repaid within 364 days if it wishes. Non-specified investments are any other type of investment, beyond one year.

Standard VNAV MMFs are funds that are primarily invested in money market instruments, deposits and other short-term assets. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds AND may invest in assets of much longer maturity. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).

Supranational Bonds
Bonds issued by supranational bodies, e.g. European investment bank. These Bonds – also known as Multilateral Development Banks bonds – are generally AAA rated and behave similarly to GILTS, but pay a higher yield (spread) given their relative illiquidity when compared with GILTS.

Treasury Management in the Public Services: Code of Practice
This is a code of practice for Council Treasury Management activities, which is produced by CIPFA.

Treasury Management Practices

This is a Council document that sets out Council policies and procedures for treasury management as required by the CIPFA “Treasury Management in the Public Services: Code of Practice”.

UK Municipal Bonds Agency
A Local Government Funding Agency that exists primarily to reduce councils' capital long term financing costs in the United Kingdom. It allows local authorities to diversify funding sources and borrow at a lower cost than is available from Central Government via the Public Works Loan Board.

Yield
The yield is the effective rate of return on an investment.