DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**DSFRA/09/3**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (BUDGET MEETING)**
DATE OF MEETING	**16 FEBRUARY 2009**
SUBJECT OF REPORT	**PRUDENTIAL INDICATORS REPORT 2009/10 TO 2011/12 AND TREASURY MANAGEMENT STRATEGY**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the Fire and Rescue Authority approves:*** ***(a) the prudential indicators and limits contained in this report;*** ***(b) the Treasury Management Strategy including the Annual Investment Strategy;*** ***(c) that the Treasurer be delegated authority to effect movements between the separately agreed limits for borrowing;*** ***(d) the Minimum Revenue Provision (MRP) statement for 2009/2010, included with this report as Appendix B;*** ***(d) that the statement at Section 7 of this report that borrowing limits and the debt management strategy have been set to ensure that net borrowing remains below the capital financing requirement for 2009/2010 to 2011/2012, in line with the requirements of the CIPFA Prudential Code, be noted.***
EXECUTIVE SUMMARY	This report sets out the Prudential Indicators associated with the capital programme for 2009/2010 to 2011/2012 considered elsewhere on the agenda of this meeting, a treasury management strategy and investment strategy for the same period. A Minimum Revenue Provision Statement for 2009/2010 is also set out in this report.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY IMPACT ASSESSMENT	None

APPENDICES	A. Summary of the Proposed Prudential Indicators. B. Minimum Revenue Provision Statement 2009/2010
LIST OF BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code. Report to Resources Committee 8 December 2008 – Affordable Capital Investment Plans for 2009/2010 to 2011/2012

1 INTRODUCTION

1.1 The Local Government Act 2003 and supporting regulations requires the Authority to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Authority’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the Treasury officers’ views on interest rates, supplemented with leading market forecasts provided by the Authority’s treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Authority;
- Prudential Indicators;
- the borrowing strategy;
- the investment strategy;
- the minimum revenue provision (MRP) strategy,

1.4 It is a statutory requirement for the Authority to produce a balanced budget. In particular, it requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

a) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

b) any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

2. TREASURY LIMITS FOR 2009/10 TO 2011/12

2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.

2.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3. PRUDENTIAL INDICATORS FOR 2009/10 – 2011/12

3.1 The prudential indicators are relevant for the purposes of setting an integrated treasury management strategy. A summary of the proposed indicators are included as Appendix A to this report. Explanations of the purpose of each of these indicators are provided in the following paragraphs. The Authority is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted on 11 April 2007 by the full Authority

4 CAPITAL EXPENDITURE

4.1 The capital expenditure plans, as proposed in the Capital Programme report to be incurred for the next three years are shown in Table 1.

TABLE 1	**2009/10 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**
Land and buildings	5.312	2.196	1.750
Vehicles, Plant and Equipment	3.426	4.339	2.319
TOTAL CAPITAL EXPENDITURE	**8.738**	**6.535**	**4.069**

4.2 Additional capital finance sources may become available during the year, for example, additional grants or external contributions. The Authority will be requested to approve increases to the capital programme to be financed from other capital resources as and when the need arises.

5. CAPITAL FINANCING REQUIREMENT (CFR)

5.1 The Capital Financing Requirement represents the authority's underlying need to borrow for capital purposes. The forecast CFR for 2008/2009 to 2010/2011, based on the spending plans are shown in Table 2.

TABLE 2	**2009/10 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**
Capital Financing Requirement as at 31 March	28.673	32.048	33.761

6. LIMITS TO BORROWING ACTIVITY

6.1 Two Prudential Indictors control the level of borrowing. They are:

- The ***authorised limit*** - this represents the limit beyond which any additional borrowing is prohibited until the limit is revised by the Authority. Revision may occur during the year if there are substantial and unforeseen changes in circumstances, for example, a significant delay in achieving forecast capital receipts. In normal circumstances this limit will not require revision until the estimate for 2010/11 is revised as part of the 2010/11 budget process. Table 3 overleaf details the recommended Authorised Limits for 2009/2010 and the medium term.
- The ***operational boundary*** **–** this indicator is based on the probable external debt during the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. Table 4 overleaf details the recommended Operational Boundaries for 2009/2010 and the medium term.

TABLE 3	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Authorised limit for External Debt			
- External Debt	36.628	38.602	40.205
- Other long term liabilities	0	0	0
TOTAL AUTHORISED LIMIT FOR EXTERNAL DEBT	**36.628**	**38.602**	**40.205**

TABLE 4	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Operational Boundary for External Debt			
- External Debt	33.761	35.397	36.829
- Other long term liabilities	0	0	0
TOTAL OPERATIONAL BOUNDARY FOR EXTERNAL DEBT	**33.761**	**35.397**	**36.829**

6.2 It is estimated that the actual external debt at 31 March 2009 for DSFRA will be £20.946 million.

7 NET BORROWING IN COMPARISON TO THE CAPITAL FINANCING REQUIREMENT

7.1 The debt management strategy and borrowing limits for the period 2009/10 to 2011/12 have been set to ensure that over the medium term, net borrowing will only be for capital purposes i.e. net external borrowing does not exceed the total Capital Financing Requirement in the preceding year plus the estimates for the current year and the next two years. This is demonstrated by the fact that the operational boundary for external debt borrowing in 2009/2010 of £33.761 million (Table 4) does not exceed the CFR for 2011/12 of £33.761 million (Table 2).

8. PRUDENTIAL INDICATORS FOR AFFORDABILITY

8.1 The previous sections of the report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.

8.2 A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2009/10 to 2011/12 based on current commitments and the proposed Capital Programme are included in Table 5.

TABLE 5	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
Ratio of Financing Costs to Net Revenue Stream	3.42	4.19	4.67

8.3 At the meeting of Resources Committee, held on the 8 December 2008, the report 'Affordable Capital Investment plans for 2009/2010 to 2011/2012, was considered with a view to determining a level of borrowing for the Authority, which would be deemed to be affordable, sustainable and prudent. In considering this report an 'in principle' decision was, for the period 2009/2010 to 2011/12, a ceiling of 5%, for the ratio of financing costs to net revenue stream, should be adopted as a measure of affordability.

Incremental Impact on the Council Tax

8.4 The estimate of the incremental impact of capital investment decisions proposed in the recommended Capital Programme over and above capital investment decisions that have previously been taken by the Authority are given in Table 6. These figures do not represent the total impact on the council tax over and above 2008/2009 as a consequence of the total capital programme, only the incremental impact over and above previous decisions made on capital investment. The figures given represent the incremental impact for a Band D property.

TABLE 6	**2009/10 Estimate £ p**	**2010/11 Estimate £ p**	**2011/12 Estimate £ p**
Element of Council tax for New Capital Spending	(£0.36)	(£0.47)	£0.12

9. TREASURY MANAGEMENT STRATEGY

9.1 The Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. One of the Prudential Indicators required by the code is the analysis of long-term debt. Table 7 below shows the actual level of debt for DFRA as at 31 March 2008 and a forecast of the Authority's fixed and variable rate debt at 31 March 2009.

TABLE 7		**Actual 31/03/08 £m**	**Interest Rate %**	**Estimate 31/03/09 £m**	**Interest Rate %**
Fixed Rate Debt	PWLB*	16.223	4.423%	20.946	4.253%
Variable Rate Debt	PWLB	0.000		0.000	
TOTAL EXTERNAL BORROWING		**16.223**	**4.423%**	**20.946**	4.253%

(* *PUBLIC WORKS LOAN BOARD)*

10. BORROWING AND DEBT MANAGEMENT STRATEGY 2009/10 – 2011/12

10.1 **Interest Rates** – forecasting future interest rate movements even one year ahead is always difficult. The factors affecting interest rate movements are clearly outside the Authority's control. Whilst short term rates are clearly linked to the Bank of England's Base Rate, the long term rates are determined by other factors e.g. the market in Gilts. The Authority retains the services of an external advisor who forecasts future rates several years' forward and similar information is received from a number of different other sources. When budgeting for interest payments and receipts a prudent approach has to be adopted if the budget is to be achievable.

10.2 **New Borrowing –** the Medium Term Financial Strategy assumes that, over the three year period, new long-term borrowing will all be undertaken at 4.50% p.a. This is thought to be a cautious assumption that is expected to be achievable. The timing of new borrowing will aim to minimise the interest cost but also to ensure that the budget is achieved. If there is a risk of rates increasing above the target in 2010/11 or 2011/12 those years' requirements may be borrowed in advance (in 2009/10). The benefits of doing this will need to be weighed against any short-term loss on re-lending the money until required.

10.3 The next financial year is expected to be a time of historically low Bank Rate. This opens up an opportunity for the authority to fundamentally review its strategy of undertaking external borrowing. As long term borrowing rates are expected to be higher than investment rates and look likely to be so for the next couple of years or so, the authority may prefer to avoid all new external borrowing in the next financial year in order to maximise savings in the short term. This extent to which this will be possible will be dependent on the ability to utilise internal borrowing from available cash. The running down of investments will also be considered, which will provide benefits in terms of reducing exposure to interest rate and credit risk.

10.4 Against this background caution will be adopted with the 2009/10 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Authority at the next available opportunity.

10.5 **Sensitivity of the forecast** – In normal times the main sensitivities of the forecast are likely to be the two scenarios below. The Authority officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it were felt that there was a significant risk of a sharp rise in long and short term rates,* perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- *if it were felt that there was a significant risk of a sharp fall in long and short term rates,* due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

10.6 However, after the freezing of some local authority investments by Icelandic banks now in receivership, many local authorities are currently concerned about the safety of investments and the ability of authorities to rely on credit ratings as a basis for ensuring that investments can be undertaken safely, especially for longer periods of time. The approach of this authority is therefore to minimise its exposure to investment risk as much as is possible, through the utilisation of internal borrowing rather than external borrowing, and to maximise its ability to use investments to repay some of its debt.

10.7 **Debt Repayment –** the extent to which an amount is charged to Revenue Budget for debt repayment (the Minimum Revenue Provision), is conditioned by the approval of a MRP statement for the authority. The timing of the actual repayment of loans will take into account prevailing interest rates and premiums payable or discounts receivable. Until used for this purpose the monies may be used to replace new borrowing or may be invested.

10.8 **Debt Restructuring** – Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations. .Any positions taken via rescheduling will be in accordance with the borrowing strategy.

10.9 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping fulfil the borrowing strategy outlined in paragraphs 10.2 to 10.4 above;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11. INVESTMENT STRATEGY 2009/10 – 2011/12

11.1 In line with guidance in the CIPFA Treasury Management in the Public Services publication, the Authority is required to approve an Annual Investment Strategy. The paragraphs below set out the Authority's strategy.

11.2 The Strategy relates to investments that are made as part of the Authority's Treasury Management function. It does not cover the acquisition of share or loan capital in any body corporate (loans) which has to be funded out of capital or revenue resources Investments only have to be funded from revenue if there is a real risk of loss that has to be provided for.

11.3 **Prudence** – the Authority will at all times invest its surplus funds prudently. Priority will be given to security and liquidity rather than yield.

11.4 **Specified Investments** – are those offering high security and high liquidity and the Authority can freely rely on these with minimal procedural formalities. They include investments made with the UK Government, a UK Local Authority (or parish) and with banks, building societies and money market funds that have 'high' credit ratings. Consideration is also given to UK building societies without a credit rating where the decision to invest will be based on asset size rather than credit ratings. All such investments must be in sterling and with a maturity of no more than a year. All of the Authority's investments in 2009/10 are expected to be in specified investments.

11.5 **Non-Specified investments** – are not clearly defined and must therefore be those that are not 'Specified'. The Strategy must identify general types of Non-Specified Investments that may be used during the year, set maximum limits and lay down guidelines for making decisions e.g. the circumstances in which professional advice will be sought, for example, the Authority's investment in the Fire and Rescue Mutual Insurance Company (FRAML). Subject to seeing a clearer definition, it is not envisaged that any other Non-specified Investments will be used. If this situation changes a further report will be submitted.

11.6 **Credit Ratings –** The Authority uses Fitch ratings to derive its counterparty criteria. Where counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings will be monitored monthly. The Authority is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body, until the review has been completed.

11.7 **Liquidity of investments** – Surplus funds may be earmarked for specific purposes or may be general balances and as such may be available for quite long periods or very short when investing cash flow forecasts will be used to judge for how long cash will be available and a margin will be allowed for unexpected cash requirements. All known short-term commitments will be covered before lending for over one month.

11.8 For the period 2009/10 – 2011/12 it has been assumed that the interest rate earned on short-term lending will be 2.00% p.a. throughout the three years. This is a significant reduction from previous year assumptions, as a consequence of the reduction in the base rate of 4% over five consecutive from October 2008, to a rate of 1% in February 2009. Whilst at this stage it is considered that this is achievable, there is a possibility that the base rate could be reduced further during 2009, which could put the achievement of this target at risk. The aim will be to maximise interest receipts by lending for the most advantageous periods, within the investment policies adopted in the Treasury Management Strategy.

12. MINIMUM REVENUE PROVISION (MRP) STRATEGY

12.1 **What is a Minimum Revenue Provision? -** Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

12.2 **New statutory duty -** Statutory Instrument 2008 no. 414 s4 lays down that: "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

12.3 **New Government Guidance** - Along with the above duty, the Government issued new guidance in February 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Authority for approval before the start of the financial year to which the provision will relate.

12.4 The Authority are legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that: Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent;

12.5 It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance. The guidance broadly requires authorities to make revenue provision for the repayment of borrowing over a period of time which bears some relation to the finite life of the asset to which borrowing is being taken. There are four options set out in the guidance which are briefly as follows;

1) For borrowing after 1st April 2008 which is supported by Revenue Support Grant (RSG) and for all borrowing before 1st April 2008;

Option 1 – Regulatory Method

MRP calculated on the basis of the old rules as this is the basis for calculating Revenue Support Grant implications.

Option 2 – CFR Method

MRP can be calculated on the basis of 4% of the CFR at the end of the preceding financial year. If the CFR at that date is nil or negative, no MRP is required.

2) For new borrowing after 1st April 2008, under the Prudential system and for which no Government support is given;

Option 3 – Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when MRP commences and not changed after that.

MRP should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make MRP until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

Option 4 – Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

12.6 Whilst options 1 and 2 are available for unsupported borrowing before 1st April 2008, authorities are able to use options 3 and 4 if they choose to do so.

12.7 A draft MRP statement for 2009/2010 is attached as Appendix B for Authority approval. The financing of the approved 2009/2010 capital programme, and the resultant prudential indicators, have been set on the basis of the content of this statement.

13. TREASURY MANAGEMENT – PERFORMANCE TARGETS

13.1 The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk. Where there are comparative statistics available for individual aspects of the Strategy (e.g. the CIPFA Treasury Management Statistics) these will be used to monitor performance.

14. TREASURY MANAGEMENT – PRUDENTIAL INDICATORS

14.1 These indicators seek to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods. Borrowing at fixed rates of interest rates for long periods can give the opportunity to lock into low rates and provide stability but risks missing possible opportunities to borrow at even lower rates in the medium term. Variable rate borrowing can be advantageous when rates are falling but there is a risk of volatility and it is vulnerable to unexpected rate rises. Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high. The Authority’s policy is generally to borrow at fixed rates of interest for as long as possible when rates are considered attractive. This has worked well in recent years but the flexibility to adapt to changing interest rate environments must be retained. The proposed treasury management indicators are set out in Table 8 below.

TABLE 8 - Treasury Management Prudential Indicators	**Upper Limit %**	**Lower Limit %**
Limits on borrowing at fixed interest rates	100	70
Limits on borrowing at variable interest rates	30	0
Percentage of Fixed Rate Debt maturing in:-		
Under 12 months	10	0
- 12 Months to within 24 months	15	0
- 24 Month to within 5 Years	30	0
- 5 years and within 10 Years	50	0
- 10 years and above	100	50

15. MONITORING THE INDICATORS

15.1 It is important to monitor performance against forward-looking indicators and the requirement that borrowing should only be for a capital purpose. The total level of borrowing will be monitored daily against both the operational boundary and the authorised limit. If monitoring indicates that the authorised limit will be breached a report will be brought to the Fire and Rescue Authority outlining what action would be necessary to prevent borrowing exceeding the limit and the impact on the revenue budget of breaching the limit.

15.2 The indicators for capital expenditure, capital financing requirement, capital financing costs and the treasury management indicators will be monitored monthly. Any significant variations against these indicators will be reported to the Fire and Rescue Authority with other budget monitoring information.

KEVIN WOODWARD
Treasurer

PRUDENTIAL INDICATOR	**2009/10 £m estimate**	**2010/11 £m estimate**	**2011/12 £m estimate**
Capital Expenditure			
Non - HRA	8.738	6.535	4.069
HRA (applies only to housing authorities)	0	0	0
TOTAL	8.738	6.535	4.069
Ratio of financing costs to net revenue stream			
Non - HRA	3.42%	4.19%	4.67%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March			
Non – HRA	28.673	32.048	33.761
HRA (applies only to housing authorities)	0	0	0
TOTAL	28.673	32.048	33.761
Annual change in Cap. Financing Requirement			
Non – HRA	2.860	3.375	1.713
HRA (applies only to housing authorities)	0	0	0
TOTAL	2.860	3.375	1.713
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/(decrease) in council tax (band D) per annum	(£0.36)	(£0.47)	£0.12
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£000	**£000**	**£000**
Authorised Limit for external debt -			
borrowing	36.628	38.602	40.205
other long term liabilities	0	0	0
TOTAL	36.628	38.602	40.205
Operational Boundary for external debt -			
borrowing	33.761	35.397	36.829
other long term liabilities	0	0	0
TOTAL	33.761	35.397	36.829

	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2009/10		
Under 12 months	10%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	50%

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY

MINIMUM REVENUE STATEMENT (MRP) 2009/2010

Supported Borrowing

The MRP will be calculated using the regulatory method (option 1). MRP will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1st April 2008)

The MRP in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The MRP will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

MRP will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make MRP until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.