NORTH YORKSHIRE POLICE, FIRE AND CRIME COMMISSIONER (FIRE & RESCUE AUTHORITY)

EXECUTIVE BOARD

Report of the Chief Financial Officer

27th February 2024

TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Purpose of Report

1.1 To present an updated Annual Treasury Management Strategy Statement for the financial year 2024/25 which incorporates:

a) a Treasury Management Strategy;
b) Capital and Treasury Prudential Indicators, including a Minimum Revenue Provision Policy;
c) a Borrowing Strategy;
d) an Annual Investment Strategy; and
e) a Capital Strategy.

2.0 INTRODUCTION AND CONTEXT

2.1 Treasury Management is defined as ‘the management of the local authority’s 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’.

2.2 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. with surplus monies being invested in low-risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

2.3 The second main function of the treasury management service is the funding of the Authority’s capital plans which will support the provision of services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet Authority risk or cost objectives.

2.4 North Yorkshire Council provides most of the Authority’s treasury management arrangements under the terms of a Service Level Agreement. Under this agreement the Council is required to comply with the terms of the Authority’s approved Annual Treasury Management Policy Statement and Annual Treasury Management and Investment Strategy. This includes providing advice to the Authority on any necessary changes required at the time of annually updating these documents.

2.5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of its capital expenditure plans and its Prudential Indicators.

2.6 The Authority is currently forecasting year end cash balances in the order of £2.2m at 31st March 2024. Depending on the timing of cash flows of receipts and payments throughout the year, balances available for investment daily are likely to increase to between £10m and £12m at points throughout 2024/25. The magnitude of these sums available for investment reinforces the importance of having robust Treasury Management strategies and polices.

2.7 The Capital Programme is regularly reviewed and there continues to be acknowledgement that there are significant areas of the Fire Estate and the equipment used within the service that require update.

2.8 The Capital Programme includes around £11m for the potential replacement of new stations, approval of any plans will be subject to full business cases and therefore currently do not have approval to commence. These plans coincide with the end of the PFI contract in 2027 which will save some £300k per year and can be used to fund the debt charges resulting from borrowing to fund the replacement stations.

2.9 The programme will be kept under review as regards outcomes of the Risk and Resource Model reviews which are likely to impact on the priority order of schemes. Also, estimates of costs for new stations will be regularly revisited alongside any impact on the minor works programme. It is important to understand how quickly different elements of the programme of work can be undertaken to set against the funding available.

2.10 There continues to be an increased focus on slippage of capital schemes moving into 2024/25. Slippage approved prior to February 2024 has been included within the Capital Programme. Any requests for further slippage will be subject to approval by the Chief Financial Officer on preparation of a full and separate business case.

2.11 This report provides a summary of the following for 2024/25:

2.11.1 **Treasury Management Strategy (See Annex 1 – Section 1)**

The Treasury Management Strategy sets out the requirements for the overall Treasury, Borrowing, Investment and Capital Policies. The strategic approach is set out in the following:

2.11.2 **Capital Prudential Indicators (See Annex 1 - Section 2)**

The Capital Prudential Indicators set out the capital expenditure plan and associated indicators, capital financing requirement (£24.1m in 2024/25) and the monitoring of core funds and investment balances. The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

The Prudential Indicators have been revised and updated in line with the latest CIPFA Code of Practice. The Estimated Ratio of Capital Financing Costs is no longer a required indicator but is included as a local affordability indicator highlighting to management the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

2.11.3 **Borrowing Strategy (See Annex 1 - Section 3)**

The Treasury Management function ensures that the Authority's cash is managed to safeguard the delivery of the Capital Expenditures plans set out in **Annex 1**. The Borrowing Strategy covers the current and projected position as well as the Treasury Prudential Indicators. The key Treasury Management Indicators the PFCC is required to approve are:

- The Authorised Limit for External Debt (the legal limit beyond which external debt is prohibited), £27m in 2024/25; and

- The Operational Boundary for External Debt (the limit beyond which external debt is not normally expected to exceed), £26m in 2024/25.

2.11.4 **Annual Investment Strategy (See Annex 1 - Section 4)**

By virtue of the Service Level Agreement with North Yorkshire Council, the Authority has adopted the Annual Investment Strategy of the Council which is embedded within the terms of the agreement and within the services which the Council provides on the Authority's behalf. The Annual Investment Strategy details the Council's Investment Policy and approach to the investment of funds.

2.11.5 **Treasury Management Strategy Statement Appendices (See Appendices A - F)**

Appendix A	The Capital Prudential and Treasury Indicators 2024/25 to 2026/27
Appendix B	Approved Lending List
Appendix C	Treasury Management Scheme of Delegation
Appendix D	The Treasury Management Role of the Section 151 Officer

2.11.6 **Capital Strategy (See Annex 2)**

The Capital Strategy sets out the context of which Capital Expenditure and Investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of policy outcomes. The Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;

- an overview of how the associated risk is managed; and

- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that the PFCC and members of Executive Board understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.0 Recommendations

That the PFCC is asked to approve:

3.1 The Treasury Management Strategy Statement (**Annex 1**), consisting of the Annual Treasury Management Strategy **(Section 1),** Capital Prudential Indicators (**Section 2**), Borrowing Strategy **(Section 3)** and Annual Investment Strategy 2023/24 (**Section 4**), including in particular;

(i) an authorised limit for external debt of £27.1m in 2024/25

(ii) an operational boundary for external debt of £26.1m in 2024/25

(iii) the Prudential and Treasury Indicators

(iv) a limit of 20% (estimated at £440k) of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments

(v) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to revenue in 2024/25 as set out in **Annex 1 - Section 2**

(vi) the Capital Strategy as attached as **Annex 2**

(vii) the Chief Financial Officer report to those charged with governance in respect of in year Treasury Management issues

ANNEX 1

1.0 SECTION 1 - TREASURY MANAGEMENT STRATEGY 2024/25

1.1 The Treasury Management strategy for 2024/25 covers two main areas:

a) **Capital issues**
- the capital expenditure plans and the associated prudential indicators; and
- the Minimum Revenue Provision (MRP) policy.

b) **Treasury Management issues**
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.2 Treasury Management Reporting

The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators.

Quarterly reporting to the PFCC is now required under the 2021 Treasury Management Code, however it is not necessary to take these reports via Executive Board. Executive Board is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a) **Treasury Management Strategy** (this report) - is forward looking and covers:

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management strategy, (how the investments/borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b) **A mid-year treasury management report** - primarily a progress report and will update the PFCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury outturn report** - a backward looking review document which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management reports are required to be adequately scrutinised before being recommended to the Commissioner. The scrutiny role is undertaken by Audit Committee.

1.4 **Training**

The revised CIPFA Treasury Management Code strengthens the requirement for Chief Financial Officer to ensure that Officers with responsibility for treasury management receive adequate training in treasury management. This especially applies to Officers responsible for scrutiny.

The scale and nature of training requirements will depend on the size and complexity of the Authority's treasury management needs. The Chief Financial Officer will assess whether treasury management staff and members have the required knowledge and skills to undertake the roles and if those skills have been maintained and are up to date.

2.0 SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2024/25 - 2026/27

2.1 The Code requires the Authority to set a range of Prudential Indicators for the next three years as part of the annual budget process, and before the start of the financial year to ensure that capital spending plans are affordable, prudent, and sustainable.

2.2 The PFCC will approve the Prudential Indicators for a three-year period alongside the annual Revenue Budget/Medium Term Financial Strategy for the year. The indicators will be monitored during the year and revisions submitted, as necessary.

The required Prudential Indicators are as follows:

- Capital Expenditure - Actual and Forecasts
- Capital Financing Requirement
- Net Borrowing and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Actual External Debt
- Liability Benchmark
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

MINIMUM REVENUE PROVISION (MRP) POLICY FOR 2024/25

2.3 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge, known as Minimum Revenue provision (MRP). The Authority is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance gives four ready-made options for calculating MRP, however the Authority can use any other reasonable basis that it can justify as prudent.

2.4 MHCLG Guidance requires the Authority to approve an MRP Policy Statement in advance of each year. The MRP guidance offers a range of options, with an overriding recommendation that there should be prudent provision. The proposed policy for 2024/25 is as follows:

(a) for all capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the Capital Financing Requirement (CFR) on a reducing balance basis.

(b) From 1 April 2008, for all unsupported borrowing not covered by points (c) and (d) below, the MRP policy will be;

Asset life method (option 3 of the statutory guidance) - MRP will be based on the estimated life of the assets using equal instalments of principal. In accordance with the regulations this option must also be applied for any expenditure capitalised under a Capitalisation Direction.

The asset life method provides for a reduction in the borrowing need over the asset's life. The Authority has applied the Depreciation Method from 1st April 2019. This allows it to make a more prudent provision in that it will recognise, where applicable, that assets are still worth 'something' after their useful lives have expired and minimise the impact on revenue.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be between 40 to 50 years for property and land, and 5 to 15 years for vehicles, plant, and equipment. To the extent that expenditure does not create a physical asset and is of a type that is subject to estimated life periods that are referred to in the guidance, e.g. software licences, these periods will generally be adopted by the Authority.

The guidance also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after that in which the new asset becomes operational, rather than in the year borrowing is required to finance the capital spending. This approach can be beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

(c) For capital expenditure on investment / development properties, under the current Government proposed amendments, where loan repayments are received in year those capital receipts will be used to reduce the CFR in that year. However, where no capital receipt is received, or where no future capital receipts are anticipated, a prudent level of MRP will be charged based on the asset life method using equal instalments of principal.

(d) For on balance sheet PFI schemes, MRP will be equivalent to the capital repayment (principal) element of the annual service charge payable to the PFI Operator and for Finance Leases, MRP will also be equivalent to the capital repayment (principal) element of the annual rental payable under the lease agreement.

MRP Overpayments - Under the MRP Guidance any charges made in excess of the statutory MRP are known as Voluntary Revenue Provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up to 31st March 2024, the total VRP overpayments made total £19k.

2.5 Therefore the Authority's total MRP provision from 1 April 2023 will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2024/25 is estimated to be £1.5m (including £0.4 in respect of PFI and finance leases).

3.0 SECTION 3 – BORROWING STRATEGY

3.1 The Authority's treasury portfolio position at 31st December 2023, and forecast at 31st March 2024 is shown below:

	31st December (Actual)		31st March 2024 (Forecast)	
	Principal Outstanding £m	Average Interest Rate %	Principal Outstanding £m	Average Interest Rate %
External Debt				
Fixed Rate				
- PWLB	15.2	4.1	14.3	4.1
Variable Rate	0.0	0.0	0.0	0.0
	15.2	**4.1**	**14.3**	**4.1**
Cash Available				
- Invested short term with NYCC	5.5	5.2	2.2	5.2
- Current Accounts	0.0	0.0	0.0	0.0
	5.5	**5.2**	**2.2**	**5.2**

3.2 **Prospects for interest rates**

The **current interest rate forecasts** of NYCC's Treasury Management Advisors (Link Asset Services - Treasury Solutions) are as follows. These are forecasts for PWLB certainty rates provided on 8 January:

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

The Link forecast for interest rates, updated on 8 January, reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation position by keeping Bank Rate at 5.25% until at least the second half of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move. There is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have been robust.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, Link forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

Public Works Loan Board (PWLB) Rates

- PWLB rates have moved since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025, which reflects market confidence in inflation falling back in a similar manner to that already seen in the US and eurozone.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected gilt issuance could be too much for the markets to comfortably digest without higher yields.

Links long-term (beyond 10 years) forecast for Bank Rate has increased to 3.00%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered.

3.3 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board. Whilst individual loans have in the past been linked to the cost of specific capital assets or their useful life span, in future, loans will be taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing and the need to avoid a distorted loan repayment profile. To date, all the Authority's external borrowing is with PWLB.

One of the annual principal factors in increases in revenue costs relate to Capital Financing charges. The provision for debt repayment (otherwise known as the Minimum Revenue Provision or MRP) is a statutory calculation, whilst external interest payments are due under loan agreements with external borrowers. These sums are the product of past and future assumed borrowing.

3.4 External v Internal Borrowing

The Authority has undertaken internal borrowing of £7.3m to 31st March 2023 and there is future internal borrowing of £3.1m planned in respect of the 2023/24 capital programme.

This option is possible because of the Authority's cash balance with a daily average of £7.5m between the 1st April and 31st December 2023. This consists of cash flow generated from creditors, core cash (via reserves and provisions) and cash built up through minimum revenue provision due to most debt outstanding being on a maturity basis. Repayment of maturing debt of £1.2m has been made during 2023/24.

Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

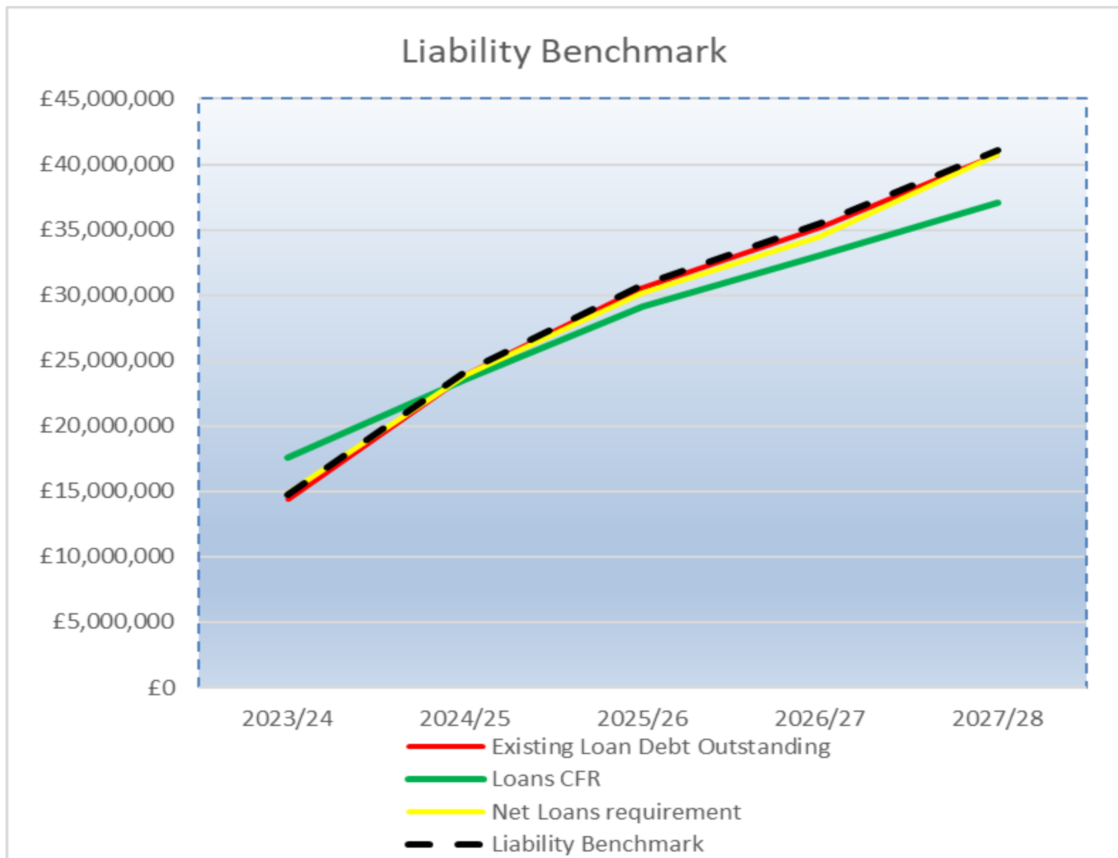
1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations.

   In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves and cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow. CIPFA recommends that the optimum position for external borrowing should be at the level of the liability benchmark (i.e. all balance sheet resources should be used to maximise internal borrowing).



There are many factors to consider when calculating the benchmark and in practical terms borrowing is taken in line with need considering cash balances at various points throughout the year. To align with the revised 2021 Treasury Management Code, the Authority will consider the need for further borrowing against short term investments, the cash flow forecast and the liquidity requirements of the Authority. Liquidity forecasts need to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

3.5 **Policy on borrowing in advance of need**

The Authority will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimate and will be considered carefully to ensure that value for money can be demonstrated, there is a clear business case for doing so and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 **Debt Rescheduling**

Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. However, given the current forecasts for the future interest rates this will be kept under review and reported to the PFCC where necessary.

4.0 SECTION 4 - ANNUAL INVESTMENT STRATEGY

4.1 By virtue of the Service Level Agreement with North Yorkshire Council, the Authority has adopted the Annual Investment Strategy of the Council which is embedded within the terms of the agreement and within the services which the Council provides on the Authority's behalf. NYCC's Annual Treasury Management and Investment Strategy for 2024/25 was approved by its Executive on 23rd January 2024 and will go to Council for formal approval on 21st February 2024.

4.2 **Investment policy - management of risk**

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the NYCC).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code"); and
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a) Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) The Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

e) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

f) **Lending limits**, (amounts and maturity), and **transaction limits** for each counterparty will be set through applying the creditworthiness policy set out in **paragraph 4.2**.

g) The Council will set a limit for the amount of its investments which are invested for **longer than 365 days.**

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

i) The Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are for the new unitary North Yorkshire Council. The risk management policy is broadly in line with the North Yorkshire County Council policy which was unchanged from the previous year.

4.2 **Creditworthiness policy**

The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preference to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap (CDS) spreads against the iTraxx European Financials benchmark and other market data daily via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Creditworthiness
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the pandemic in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and

return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information.

Environmental, social and governance (ESG)
This is a developing area, and for the purpose of the Council's treasury investments the Council's ESG policies and the environmental and climate change policy, will have a trickle-down effect into Treasury Management activity. Investments will still comply with SLY, Security, Liquidity, Yield requirements in the first instance. Treasury Management Practice 1 – Risk Management – has been expanded to include a high-level reference to ESG aspects of Treasury Management where creditworthiness and counterparty policies are in place to mitigate investment risk where the ESG risks are also incorporated.

4.3 **Other Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

a) Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £60m, being approximately 10% of the total treasury management investment portfolio.

b) Country limit. The Council has determined that, for counterparties outside the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Countries / Groups / Sector limits**. In addition
   - Limits in place will apply to a group of companies/institutions
   - Sector limits will be monitored regularly for appropriateness

4.4 **Investment strategy**

Under the Service level agreement, NYCC collects all available balances from the Authority and other organisations using the Treasury Management service and pools with NYCC funds. These aggregated balances are then invested in accordance with the agreed Investment Strategy.

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations. The current interest rate forecast includes a forecast for Bank Rate to have peaked at 5.3% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average Earnings in each year	
2023/24 (residual)	**5.30%**
2024/25	**4.70%**
2025/26	**3.20%**
2026/27	**3.00%**
2027/28	**3.25%**
Years 6 to 10	**3.25%**
Years 10+	**3.25%**

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances (cash required for liquidity purposes), the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) to benefit from the compounding of interest.

5. APPENDICES

Appendix A The Capital Prudential and Treasury Indicators 2024/25 to 2026/27

Appendix B * Approved Lending List *

Appendix C Treasury Management Scheme of Delegation

Appendix D The Treasury Management Role of the Section 151 Officer

* Appendix drawn from NYCC's Annual Treasury Management and Investment Strategy for 2024/25 was approved by its Executive on 23rd January 2024 and will go to Council for formal approval on 21st February 2024.

APPENDIX A

PRUDENTIAL INDICATORS 2024/25 TO 2026/27

1.1 **Prudential Indicators**

The Prudential Code requires authorities (including the PFCC) 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 key objectives of the Prudential Code are to ensure that:

- Capital expenditure plans are affordable, prudent, and sustainable
- Treasury Management decisions are taken in accordance with professional good practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable.

1.2 The Code imposes on authorities' clear governance procedures for setting and revising of Prudential Indicators and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium-term net borrowing will only be for a capital purpose.

1.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code. Under the Code, the PFCC is required to set a range of Prudential Indicators for the financial years 2024/25 to 2026/27.

1.4 The Code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy. The indicators reflect the Capital Plan, existing commitments and associated financing costs as included within the Medium-Term Financial Plan (MTFP) 2024/25 to 2026/27.

1.5 **Affordability**

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PFCC finances. The PFCC is requested to approve the following:

(i) **Estimates of capital expenditure**

This is a prudential indicator for prudence showing the previous year actual and estimates of the total of capital expenditure planned to be incurred during the forthcoming financial year and the following two financial years.

	2023/24	**2024/25**	**2025/26**	**2026/27**
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital Expenditure	**4,353**	**8,178**	**7,480**	**6,055**
Funded by:				
Internal Borrowing	3,116	0	0	0
External Borrowing	0	7,070	6,990	5,690
Other Capital resources	1,237	1,108	490	364

(ii) **Ratio of financing costs to net revenue stream**

This indicator highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs (including other long-term obligation costs net of investment income).

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Minimum Revenue Provision:				
PWLB Borrowing	917	1,053	1,414	1,766
Finance Lease	86	88	0	0
PFI	275	332	306	391
Interest Payable:				
PWLB borrowing	638	713	1,108	1,342
Finance Lease	2	0	0	0
PFI	427	411	360	408
Interest receivable	-346	-300	-300	-300
Financing Costs	**1,998**	**2,297**	**2,888**	**3,607**
Net Revenue Stream	**36,626**	**40,423**	**41,853**	**43,338**
Ratio	**5.5%**	**5.7%**	**6.9%**	**8.3%**
Ratio - Excluding PFI	3.5%	3.8%	5.3%	6.5%

(iii) **Estimates of capital financing requirement (CFR)**

This is a prudential indicator for prudence and shows the previous year actual and the forecast total capital financing requirement at the end of the forthcoming financial year and the following two years. The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

It measures the PFCC's underlying need to borrow for capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

Capital Financing Requirement (as at 31 March)

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Opening Capital Financing Requirement	**16,837**	**18,675**	**24,272**	**29,542**
Unsupported Borrowing to fund Capital Exp.	3,116	7,070	6,990	5,690
Minimum Revenue Provision:				
Supported Borrowing	-216	-208	-199	-191
Unsupported Borrowing	-700	-845	-1,215	-1,575
PFI and Finance Leases	-361	-420	-306	-391
Closing Capital Financing Requirement	**18,675**	**24,272**	**29,542**	**33,076**

The PFCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

(iii) **Limits to Borrowing Activity**

Within the Prudential Indicators there are several indicators to ensure that the PFCC operates its activities within well-defined limits.

For the first of these, the PFCC should ensure that its debt net of investments does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year, plus the estimate of any additional CFR for 2024/25 and the next two financial years.

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Investments	-2,200	-2,200	-2,200	-2,200
Net Borrowing	**13,352**	**22,368**	**28,709**	**32,954**
Total CFR for borrowing purposes	**18,675**	**24,272**	**29,542**	**33,076**

The projected forecasts detailed in the table above show that there is still margin between the net borrowing and the CFR and therefore the PFCC is within the limits required, although it is worth reflecting that this gap is forecast to reduce significantly in the later years of the plan.

A further two prudential indicators control or anticipate the overall level of borrowing. These are:

(iv) The **Authorised Limit** represents the legislative limit specified in Section 3 of the Local Government Act 2003. Borrowing beyond this limit is prohibited and therefore would be ultra vires. The provision of temporary borrowing allows for temporary short-term borrowing in year to allow for cash flow movements.

(v) The **Operational Boundary** which is based on the probable external debt during the year. It is the affordable debt limit, and is set using the operational boundary, plus scope for borrowing due to an unforeseen cashflow which may be required in the short term during the year, if for instance a large grant payment was delayed.

The PFCC is asked to approve the following limits:

Authorised Limit for External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Provision for Temporary Borrowing	2,500	2,500	2,500	2,500
Net Borrowing	**18,052**	**27,068**	**33,409**	**37,654**

Operational Boundary for External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Provision for Temporary Borrowing	1,500	1,500	1,500	1,500
Net Borrowing	**17,052**	**26,068**	**32,409**	**36,654**

(vi) **Actual External Debt**

Actual External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Actual External Debt	**15,552**	**24,568**	**30,909**	**35,154**

(vii) **Liability Benchmark**

See **paragraph 3.4** above.

1.6 **Treasury Management Indicators**

The purpose of these is to contain Treasury Management activity within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PFCC's overall financial position. The PFCC is asked to approve the following:

(i) **Maturity Structure of borrowing**

Due within:	Lower Limit %	Upper Limit %
Less than 1 year	0.00	10.0
Between 1-2 years	0.00	10.0
Between 2-5 years	0.00	30.0
Between 5-10 years	0.00	55.0
Between 10-20 years	0.00	100.0
Over 20 years	0.00	100.0

(ii) **Total principal sums invested for periods longer than 365 days**

Based on estimated levels of funds and balances, the need for liquidity and day to day cash flow requirements, it is forecast that £440,000 (20%) of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments.

APPENDIX B

APPROVED LENDING LIST 2024/25

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 September 2023

APPENDIX C

TREASURY MANAGEMENT SCHEME OF DELEGATION

Police, Fire and Crime Commissioner

- receiving and reviewing reports on treasury management policies, practices, and activities.
- approval of annual strategy.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- approving the selection of external service providers and agreeing terms of appointment.

Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX D

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The PFCC delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the S151 Officer (Chief Financial Officer), alongside the execution and administration of Treasury Management decisions including any borrowing and debt rescheduling.

The S151 Officer (Chief Financial Officer)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budgets variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe
- ensuring that the capital strategy is sustainable, affordable, and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to PFCC of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees
- ensuring that the PFCC is adequately informed and understands the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

ANNEX 2

1.0 CAPITAL STRATEGY 2024/25

1.1 The CIPFA Code of Practice on Treasury Management requires local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions contribute to the delivery of Authority's plans and provisions of services whilst taking account of stewardship, value for money, prudence, sustainability, proportionality, and affordability. This requirement was first introduced in 2018/19.

1.2 The purpose of the Capital Strategy is to set out how the Authority proposes to deploy its capital resources effectively to achieve its corporate and service objectives. The Capital Strategy considers other relevant strategies and, policies as well as the views of partners and interested parties with whom the Authority is involved. The resources which are forecast to be available to fund capital investment and the effect of that investment on the Authority's 's revenue budget are also considered. The Capital Strategy will serve as a useful point of reference when determining or reviewing the Authority's 's Capital Five Year Spending Plan (known as the Capital Plan).

1.3 The Capital Strategy is key to support long term investment decision enabling the delivery of the Authority's objectives and plans. It is a key strategy document and forms part of the Authority's revenue, capital, balance sheet and reserves planning. It provides:

- A long-term view of capital expenditure plans and any financial risks to which the Authority is exposed.
- Ensuring due regard to the long-term financing, affordability implications, potential risks, and the implications for future financial sustainability.

1.4 Capital Schemes must comply with other strategies as well as contract procedure rules, financial regulations and legislation, such as the Disability Discrimination Act. Important linking documents include:

- Authority's Constitution including Contract and Financial Procedure Rules
- Medium Term Financial Strategy
- Capital Plan
- Treasury Management Strategy Statement
- Asset management planning arrangements
- Individual Service Plans

2.0 CAPITAL INVESTMENT PLAN

Capitalisation Policy

2.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and

- Are of continuing benefit to the Authority for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.2 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- Where the Authority has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and

- Where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

2.3 The Authority operates a de-minimis limit for capital expenditure of £10,000. This means that items below this limit are charged to revenue rather than capital.

2.4 **Capital expenditure plans**

The Authority's strategies and plans support the need for capital investment to enable required outcomes. The Authority has a responsibility to apply an affordable, prudent, and sustainable approach to that investment, as set out in the Prudential Code and therefore uses the prioritisation and planning process to manage this as described above. A summary of the Authority's capital expenditure plans is shown below. Both plans agreed previously, and those forming part of the budget are integral to the capital strategy.

	Estimated	Estimated	Estimated	Estimated	Estimated
	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
FUNDING					
Reserve Brought Forward	**2,995**	**2,063**	**1,141**	**832**	**593**
Revenue Contribution to Capital	253	286	182	125	420
Capital Receipts	52	0	0	0	0
Borrowing	3,116	6,970	5,417	3,082	2,520
Estates Replacement Borrowing	0	100	1,573	2,608	3,340
TOTAL FUNDING	**3,421**	**7,356**	**7,172**	**5,815**	**6,280**
EXPENDITURE					
Transport excluding Cars	2,007	3,922	4,617	2,382	120
Transport - Cars	829	301	148	118	0
Estates	1,109	1,148	2,373	3,308	4,040
ICT	408	908	342	246	510
Control System	0	0	0	0	1,700
Logistics	0	1,900	0	0	0
TOTAL APPROVED CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
ESTATES REPLACEMENT PROGRAMME	**0**	**0**	**0**	**0**	**0**
TOTAL CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
Reserve Carried Forward	**2,063**	**1,141**	**832**	**593**	**503**

2.5 **Capital expenditure in non-treasury investments** can be for a service or a commercial purpose. To meet service or Authority obligations capital investment could be in the form of loans or equity provided to external bodies, subsidiaries or joint ventures.In order to retain access to borrowing from the PWLB the Authority is required to certify the capitals plans do not include expenditure on new non-treasury commercial investments primarily for financial return. However, where the capital spending decision is primarily related to the function of the Authority and any financial returns are incidental then access is retained.

All alternative investment activities are subject to approval in accordance with the Authority's governance framework for decision making. the time of writing the Capital Strategy, there are no alternative investment activities that count as capital expenditure being considered by the Authority.

The Authorty recognises that achieving its capital ambitions will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however capital investment funded by borrowing will be undertaken in priority areas to meet capital ambitions if required, subject to at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by a robust capital planning process, due diligence, business cases, risk management and monitoring.

3.0 AVAILABLE RESOURCES AND FUNDING PLANS

3.1 The Authority has several funding streams available to support capital investment. The funding of the five-year capital investment programme is detailed in the Medium-Term Financial Plan.

3.2 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Authority can finance that expenditure from any of the following sources**:**

(a) **Capital grants and contributions** - amounts awarded to the Authority in return for past or future compliance with certain stipulations.

(b) **Capital receipts** - amounts generated from the sale of assets and from the repayment of capital loans, grants, or other financial assistance.

(c) **Revenue and reserve funding** - amounts set aside from the revenue budget in the Capital Reserve to be used for future capital funding.

(d) **Prudential Borrowing** - amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over several years into the future.

3.3 **Capital Financing Requirement and Borrowing**

The Authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence, and sustainability of its capital investment plans. It is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR).

Where capital expenditure has been incurred without a resource to pay for it, i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Authority's Capital Financing Requirement (CFR) which is its underlying need to borrow. The amount of borrowing required will be considered along with the Authority's cashflow position.

When capital expenditure is funded from borrowing, this does not result in expenditure being funded immediately from cash resources but is instead charged to the revenue budget over several years. It does this in accordance with its policy for the repayment of debt, which is set out in **Annex 1 - Section 2.**

The CFR for the forthcoming financial year and the following two financial years are set out in **Appendix 1**.

3.4 **Assessing affordability** - the revenue cost implications of Capital investment undertaken historically and the proposed Capital Plan form an integral part of the Authority's revenue budget and Medium-Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating/maintaining new assets
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the approach to making prudent provision for repayment of capital investment paid for by borrowing - MRP)
- The revenue costs of preparing and delivering projects
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all of the costs of investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents. Where capital investment has been undertaken by borrowing, the Authority is required to spread the cost of that investment over future years' revenue budgets. This is in accordance with its MRP Policy for the prudent repayment of capital expenditure which is approved as part of the budget proposals each year.

3.5 **Affordability indicators -** Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Authority's capital expenditure plans upon the revenue budget and upon borrowing and investment levels and explain the overall controls that will ensure that the activity remains affordable, prudent, and sustainable. Prudential and treasury indicators to manage capital investments take a longer-term view of affordability, prudence and sustainability and are included in the Treasury Management Strategy Statement at the start of every financial year. These are set out in **Appendix 1**.

3.6 **External Borrowing Limits**

There are prudential indicators for prudence which focus setting an affordable limit for external debt. The operational boundary is the affordable debt limit, and the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003. This is the set using the operational boundary plus an amount for unforeseen cashflow movement. The operational boundary is the limit for total gross external debt, separately identifying borrowing from other long-term liabilities.

These limits for the forthcoming financial year and the following two financial years are set out in **Appendix 1**.

3.7 **Borrowing Strategy**

The Authority's Borrowing Strategy is set out in **Annex 1 - Section 3**

The Authority is currently maintaining an under borrowed position. This means that the Capital Financing Requirement (CFR) has not been fully funded from long-term external borrowing as cash supporting the Authority's reserves and balances has been used as a short-term measure.

The use of internal borrowing has been an effective strategy in recent years as:

(a) It has enabled the Authority to avoid significant external borrowing costs; and

(b) It has mitigated significantly the risks associated with investing cash in what has often been a volatile and challenging market.

The Treasury Management Strategy Statement uses forecast cashflow information from the Reserves Strategy and the Capital Plan to make decisions around the amount, timing and duration of any new external borrowing required by the Authority.

In terms of the Reserves Strategy, the Authority uses a risk-assessed General Fund Reserve and effectively manages the balances of earmarked reserves over the longer term which is used to support the forward Balance Sheet projection. This projection provides a valuable foundation for the strategic financial planning of capital financing costs for the capital investment plan.

In terms of the 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 financing using the low-cost internal cash resources available in the short term and further long-term fixed rate loans where the future cost is known.

Opportunities to generate savings by refinancing or prematurely repaying existing long-term debt will also be kept under review. Potential savings will be considered in light of the current treasury position and the costs associated with such actions.

4.0 GOVERNANCE

4.1 Consideration, approval and monitoring of the capital plan takes place as part of the Authority's planning timetable.

4.2 Consideration must be given to the capital budget setting process. The Capital Plan sets out the Authority's longer term capital investment plans. These plans support the Authority's strategic and service objectives by maximising the assets necessary to support service delivery whilst minimising the impact on the revenue budget.

4.3 The Capital Plan must be approved by the PFCC before the start of the financial year. The Authority's provides a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Programme within defined resource parameters.

4.4 The Chief Financial Officer is responsible for preparing an overall Capital Programme for consideration and approval by the PFCC, the funding of which being compatible always with the Treasury Management Policy Statement of the Authority. Individual schemes shall only be included in the

Capital Plan following a project appraisal process undertaken in accordance with the Code of Corporate Governance.

In Year Opportunities can be put forward to the Chief Financial Officer for entry into the capital programme in a managed way which will be reported to both the Senior Leadership Board and Executive Board as part of the regular budget monitoring reporting timetable.

4.5 Other long-term liabilities - The Authority's Financial Procedure Rules provide a framework for the appraisal and approval of schemes including where this is delivered by means of PFI contracts or leasing arrangements. This framework includes the ongoing monitoring and risk management of long-term liabilities taken to deliver operational services.

4.6 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy via the reporting arrangements set out within.

5.0 SKILLS AND TRAINING

5.1 All capital investment approvals are subject to robust consideration and challenge by Officers with extensive Local Government experience and from varying professional backgrounds.

5.2 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority requires finance staff to maintain relevant professional qualifications including ACCA and AAT. All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development.

5.3 Where staff do not have the specialist knowledge and skills required, use is made of external advisers and consultants that are experts in their field.