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

EXECUTIVE BOARD

Report of the S151 Officer

26th March 2019

TREASURY MANAGEMENT

1.0 Purpose of Report

1.1 To present an updated Annual Treasury Management Strategy for the financial year 2019/20 which incorporates:

a) the Annual Investment Strategy;
b) a Minimum Revenue Provision Policy;
c) a Capital Strategy

2.0 Background

2.1 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.

2.2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

2.3 CIPFA defines treasury management 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."

2.4 North Yorkshire County Council currently provides most of the Authority's Treasury Management arrangements under the terms of the Service Level Agreement. Under this agreement the County 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. In addition, the Authority uses Link Asset Services - Treasury Solutions (previously Capita Asset Services) as its external treasury management advisors via the Service Level Agreement.

2.5 Internal cash balances are invested in low risk counterparties or instruments commensurate with the County Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.6 The Authority is currently forecasting year end cash balances in the order of £5,500,000 at 31st March 2019. Depending on the timing of cash flows of receipts and payments throughout the year, balances available for investment on a daily basis are likely to increase to some £12,500,000 at points throughout 2019/20. The magnitude of these sums available for investment reinforces the importance of having robust Treasury Management strategies and polices.

2.7 Current reporting arrangements for the reporting of Treasury Management activities comprise the receipt by the Police, Fire and Crime Commissioner of an Annual Strategy and plan in advance of the year. The PFCC will receive as a minimum, a mid-year review and an annual report after its close.

2.8 The PFCC considered the Treasury Management mid-year Review on the 12th February 2019.

2.9 This set out that the Capital Programme has undergone significant review during 2018/19 as part of the Future Budget and Efficiency Plan which commenced in June 2018 to address a shortfall in the Authority's MTFP up to and including 2022/23 of £2.5m on a recurring basis. The review was a result of discussions by Corporate Management Board and the S151 Officer necessary to help ensure the correct provision of assets in the context of the amount of capital borrowing that the Service can sustain over the medium term. Consideration has also been given to funding of the programme specifically

(a) the amount of capital receipts to be applied against capital expenditure in the years 2018/19 and 2019/20 and;

(b) the use of internal borrowing (from cash balances) due to the current low level of interest rates and the differential between the cost of borrowing from PWLB and borrowing internally (i.e. the interest forgone by not investing the cash balances).

Alongside the review, a borrowing strategy incorporating both of the above reduces the rate of increase and the incidence of capital financing costs over the period 2019/20 and 2022/23 delivering financial savings for the Authority, whilst also mitigating credit risk through holding investments in the market.

3.0 Treasury Management Policy Statement

3.1 The **CIPFA Code of Practice on Treasury Management** (as updated in 2017) requires the PFCC to approve:

(a) a **Treasury Management Policy Statement** (**TMPS**) stating the Authority's policies, objectives and approach to risk management of its Treasury Management activities;

(b) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the Authority will seek to achieve the policies and objectives set out in (a) and prescribing how it will manage and control those activities. The Code recommends 12 TMPs.

(c) a **Capital Strategy** setting out a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of corporate and service objectives.

3.2 The Treasury Management Policy Statement referred to in **paragraph 2.1 (a)** is attached as **Appendix A** and reflects only very minor changes for 2019/20.

3.3 The 12 TMPs recommended by the Code were approved by North Yorkshire County Council's Audit Committee on 6th December 2012.

4.0 Annual Treasury Management Strategy and Investment Strategy and Minimum Revenue Provision Policy 2019/20

4.1 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (as updated in 2017) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

(a) the approval, on an annual basis, of a set of **Prudential Indicators**;

(b) the approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision (MRP)** policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

4.2 By virtue of the Service Level Agreement with North Yorkshire County 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 2019/20 was approved on 20th February 2019.

4.3 The Government's guidance on the Annual Investment Strategy, updated in 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The Authority has adopted this combined approach.

4.4 The Prudential indicators will be set on the basis of the Capital Programme included within the 2019-20 Budget and Capital Programme and MTFP to 2022/23 (Fire) Report.

4.5 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 and following review of this policy.

4.6 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all local authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of corporate and service objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. It will, therefore, provide a projection of how capital expenditure plans, including alternative investment plans, impact on capital borrowing and repayment plans.

4.7 The Authority's Annual Treasury Management and Investment Strategy for 2019/20 is attached as Appendix B and covers the following matters:

- Treasury limits in force which will limit the treasury risk and activities **(Paragraph 1)**
- Prudential and Treasury Indicators **(Paragraph 2)**

- the current treasury position **(Paragraph 3)**
- the Borrowing Requirement and Borrowing Limits **(Paragraph 4)**
- Prospects for interest rates **(Paragraph 5)**
- Borrowing Policy and Strategy **(Paragraph 6)**
- Review of long term debt and debt rescheduling **(Paragraph 7)**
- Minimum revenue provision policy **(Paragraph 8)**
- Annual investment strategy **(Paragraph 9)**
- Other Treasury Management Issues **(Paragraph 10)**
- Capital Strategy (**Appendix C**)

5.0 Approved Lending List

5.1 The current Approved Lending List is attached to this report as **Schedule A** to the Annual Treasury Management and Investment Strategy 2019/20 (**Appendix B**). The List, however, continues to be monitored on an ongoing basis and changes made as appropriate by the Corporate Director – Strategic Resources to reflect credit rating downgrades/upgrades, mergers or market intelligence and rumours that impact on the credit 'score' and colour coding.

5.2 The changes reflected in the latest Approved Lending List compared with that submitted for 2018/19 in February 2018 are listed below. Please note that the analysis below is between the version provided last year and the proposed list for 2019/20 - it is a snapshot at a point in time. It is therefore possible that there will be in year changes that are not identified in this snapshot.

(a) organisations included on the Approved Lending List which will NOT be included for 2019/20

Organisation
Deutsche Bank
BNP Paribas Fortis
Nordea Bank AB
Canadian Imperial Bank of Commerce

(b) organisations who have been amended following the ring-fencing (Ring Fenced Bank - NRFB) of UK retail banking

Organisation
Royal Bank of Scotland (RFB)
Natwest Bank (RFB)
Barclays Bank PLC (NRFB)
Barclays Bank UK PLC (RFB)
Bank of Scotland PLC (RFB)
Lloyds Bank PLC (RFB)
Lloyds Bank Corporate Markets PLC (NRFB)
HSBC Bank PLC (NRFB)
HSBC UK Bank PLC (RFB)

(c) organisations added to the Approved Lending List during 2018/19

Organisation

Sumitomo Mitsui
Toronto-Dominion Bank
Landesbank Hessen Thueringen Girozentrale (Helaba)
DBS (Singapore)

5.3 Local Authorities will continue to be included on the Approved Lending List for 2019/20, although suitable investment opportunities with them are limited. As a result of the way they are financed and their governance arrangements, Local Authorities are classed as having the highest credit rating.

5.4 The Debt Management Office (DMO), is a deposit account within HMT (regarded as lending to the Government), and continues to be included on the Approved Lending List.

6.0 Additional Types of Investment

6.1 The County Council may use various financial instruments for the prudent management of its treasury balances including fixed term deposits, Certificates of Deposit, Money Market Funds, Gilts, Bonds and Collateralised Deposits.

6.2 Alternative investment options are continually monitored and reviewed. Treasury Management staff continue to investigate further investments options to assess whether they meet the Council's investment priorities and criteria list.

6.3 As part of the monitoring and review of investment options, Property Funds have been identified as a potential instrument for investment following discussions with the County Council's Treasury Management consultants. Property Funds are pooled investment vehicles investing in commercial property. The County Council's Annual Investment Strategy states that appropriate due diligence will be undertaken before an investment of this type is undertaken, and that it will also consult with all external members for whom it provides a Treasury Management service prior to any investment.

6.4 Having regard to this change, and also some minor changes to the lending list which have already been communicated in year, no major changes are anticipated and the Authority can continue to rely on the Strategy undertaken on its behalf by NYCC.

7.0 Recommendations

7.1 That the PFCC is asked to approve:

a) The Treasury Management Policy Statement as attached at **Appendix A;**

b) the annual Treasury Management and Investment Strategy for 2019/20 as detailed in **Appendix B** and in particular;

(i) an authorised limit for external debt of £18.9m in 2019/20

(ii) an operational boundary for external debt of £16.5m in 2019/20

(iii) the Prudential and Treasury Indicators

(iv) a limit of 20% (estimated at £1,100,000) 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 2018/19 as set out in **paragraph 8** which incorporates a change from the Asset Life method to the Depreciation method for locally agreed Prudential Borrowing (unsupported borrowing) on capital expenditure incurred after 1 April 2008

(vi) the Capital Strategy as attached as Appendix C

(vii) the S151 Officer report to the PFCC in respect of in year Treasury Management issues.

APPENDIX A

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

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The Authority has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the Authority.

1.2 The CIPFA Code of Practice on Treasury Management requires the Authority to adopt the following four clauses of intent:

(a) the Authority will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the Authority to its treasury management activities;

(ii) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

(b) receipt by the PFCC an annual strategy and plan in advance of the year. The organisation (Executive Board) will receive as a minimum, a mid-year review and an annual report after its close, in the form prescribed in the TMPs;

(c) the Authority maintains responsibility for the implementation and regular monitoring of its Treasury Management policies and practices, and delegates the execution and administration of Treasury Management decisions to the S151 Officer who will act in accordance with the Authority's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

(d) the Authority nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

(a) the approval, on an annual basis, of a set of **Prudential Indicators**;
(b) the approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision (MRP)** policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the Authority is set out below.

2.2 The Authority defines the policies and objectives of the treasury management activities of the Authority as follows:

(a) the management of the 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;

(b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instrument entered into to manage these risks;

(c) effective treasury management will provide support towards the achievement of the business and service objectives of the Authority as expressed in the Corporate Plan. The Authority is committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the Authority and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

(a) set out the manner in which the Authority will seek to achieve the policies and objectives; and

(b) prescribe how the Authority will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs approved by North Yorkshire County Council's Audit Committee on 6th December 2012.

3.3 A list of the 12 TMPs is as follows: -

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money Laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the Authority to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the Authority to set a range of Prudential Indicators for the next three years

(a) as part of the annual Budget process, and;

(b) before the start of the financial year;

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

4.3 The required Prudential Indicators are as follows

- Estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Expenditure - Actual and Forecasts
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Operational Boundary for External Debt
- Authorised Limit for External Debt
- Actual External Debt
- Maturity Structure of Borrowing

- Total Principal Sums Invested for periods longer than 365 days

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

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the Authority to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The Authority has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from February 2018, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the Authority for approval before the start of the financial year.

6.0 REVIEW OF THIS POLICY STATEMENT

6.1 A review of this Policy Statement and all associated documentation will be undertaken annually as part of the Revenue Budget process, together with a mid-year review and at such other times during the financial year as considered necessary by the S151 Officer.

APPENDIX B

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

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2019/20

1.0 TREASURY LIMITS 2019/20 TO 2021/22

1.1 It is a statutory duty under Section 3(1) 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**.

1.2 The Authority must have regard to the terms of the Prudential Code when setting the Affordable Borrowing 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. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (see **paragraph 6 (vi)** below).

1.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as finance leases and PFI schemes. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

2.0 PRUDENTIAL INDICATORS 2019/20 TO 2021/22

2.1 The following prudential indicators for the three year period 2019/20 to 2021/22 are relevant for the purposes of setting an integrated Annual Treasury Management Strategy. The indicators reflect the Capital Plan, existing commitments and associated financing costs as included within the 2019/20 Revenue Estimates, Capital Programme and Precepts report elsewhere on the agenda.

(i) **Estimated ratio of capital financing costs to the net Revenue Budget**

	%
2017/18 actual	7.9
2018/19 forecast	7.9
2019/20 estimate	7.1
2020/21 estimate	7.1
2021/22 estimate	7.3

Previous strategies of the Authority have included a local indicator capping Capital Financing Costs to 10.0% of the annual Net Revenue Budget. However, given the current shortfall in the MTFP up to and including 2022/23, no further increases in capital financing charges could be approved at this time. Importantly, the level of borrowing and capital charges should be determined by affordability, sustainability and the Service's plans with regards to future service delivery rather than a nominal cap being in place.

(ii) **Capital Expenditure Actual and Forecasts**

	£m
2017/18 actual	1.9
2018/19 forecast	2.7
2019/20 estimate	2.8
2020/21 estimate	2.0
2021/22 estimate	2.3

(iii) **Capital Financing Requirement (as at 31 March)** CFR is the capital expenditure incurred historically by the Authority that has yet to be financed i.e. external debt less Minimum Revenue Provision.

	Borrowing £m	**Other Long Term Liabilities £m**	**Total £m**
31 March 2018 actual	13.5	3.4	16.9
31 March 2019 forecast	15.0	2.7	17.7
31 March 2020 estimate	15.7	2.3	18.0
31 March 2021 estimate	16.4	2.0	18.4
31 March 2022 estimate	17.6	1.7	19.3

(iv) **Ratio of Gross Debt to Capital Financing Requirement**

In order to ensure that over the medium term, debt will only be for Capital purposes, the Authority should ensure that debt 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 capital financing requirement for 2019/20 and the next two financial years.

All of the Authority's outstanding debt has been taken for the purpose of funding capital expenditure. The Authority has previously not complied with this prudential indicator as a result of the annual minimum revenue provision for debt repayment reducing the CFR below gross debt, the majority of which is on a fixed maturity basis for longer term periods. CIPFA do recognise that authorities may not be in a position to meet the requirement due to their debt portfolios, and in such circumstances require a statement of non-compliance which the Authority has previously included within its TM Strategy.

The undertaking of internal borrowing since 2015/16 to finance the capital programme has reduced incidence of capital financing costs, and in turn reduced the differential between CFR and gross debt. Further use of internal borrowing in 2019/20 means that the Authority will comply with this indicator. The position will continue to be monitored closely.

(v) **Operational Boundary for external debt**

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2018/19	13.7	2.7	16.4
2019/20	14.2	2.3	16.5
2020/21	15.5	2.0	17.5
2021/22	17.4	1.7	19.1

(vi) **Authorised limit for external debt**

Being the operational boundary plus an allowance for temporary short term borrowing in year to allow for cash flow movements.

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing Limit £m
2018/19	16.1	2.7	18.8
2019/20	16.6	2.3	18.9
2020/21	17.9	2.0	19.9
2021/22	19.8	1.7	21.5

(vii) **Actual External Debt**

Includes “other long term liabilities” such as PFI contracts and finance leases

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2018 actual	14.1	3.3	17.4
at 31 March 2019 forecast	13.7	2.7	16.4
at 31 March 2020 estimate	14.2	2.3	16.5
at 31 March 2021 estimate	15.5	2.0	17.5
at 31 March 2022 estimate	17.4	1.7	19.1

(viii) **Maturity Structure of borrowing**

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit %	Upper Limit %
under 12 months	0	10
12 months and within 24 months	0	10
24 months and within 5 years	0	20
5 years and within 10 years	0	50
10 years and within 20 years	0	100
20 years and above	0	100

(ix) **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 £1,100,000 of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments.

3.0 CURRENT TREASURY POSITION

3.1 The Authority’s treasury portfolio position at 31st December consisted of:

Item	Principal £m	Average Rate at 31 Dec 2018 %
Debt Outstanding		
Fixed Rate funding	13.9	4.0

PWLB Variable Rate funding	0.0	-
Total Debt Outstanding	**13.9**	**4.0**
Investments Managed by NYCC via SLA	7.1	0.9
Total Investments	**7.1**	**0.9**

4.0 THE BORROWING REQUIRMENT AND BORROWING LIMITS

4.1 The Authority's annual borrowing requirements consist of capital financing requirements plus replacement borrowing for debt repaid less a prudent Minimum Revenue Provision charged to revenue for debt payment. These borrowing requirements are as follows:

Year	Basis	£m	Comment

2017/18	actual	0	No actual external borrowing was taken. The borrowing requirement of £1,174,000 was internally financed from cash balances after the application of capital receipts of £327,000. A contribution from North Yorkshire Police of £411,000 was applied against expenditure relating to the new Transport and Logistics site in Thirsk.
2018/19	forecast	0	The forecast borrowing requirement of £2,300,000 will be internally financed after the application of capital receipts of £375,000 to fund IT expenditure and a revenue contribution to capital of £35,000 in respect of the cost of ladders fitted to Tactical Response Vehicles in year.
2019/20	*estimate*	1.6	Borrowing required after the application of capital receipts of £789,000 to fund IT expenditure and a revenue contribution to capital of £392,000 to fund the purchase of cars.
2020/21	*estimate*	1.7	Borrowing required after a revenue contribution to capital of £244,000 to fund the purchase of cars.
2021/22	*estimate*	2.2	Borrowing required after a revenue contribution to capital of £80,000 to fund the purchase of cars.

4.2 The Prudential Indicators set out in paragraph 6 above include an Authorised Limit and Operational Boundary for external debt for each of the three years to 2021/22.

4.3 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the Operational Boundary but allows sufficient headroom (£2.4m) over this figure to allow for unusual cash movements.

4.4 The **Authorised Limit** therefore represents the maximum amount of external debt which the Authority agrees can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not however expected that the Authority will have to borrow up to the limit agreed.

4.5 The 2019/20 Operational Boundary and Authorised Limits are as follows:

	£m
Operational Boundary for external debt	16.5
+ Provision to cover unusual cash Movements	2.4
= **Authorised Limit for year**	**18.9**

5.0 PROSPECTS FOR INTEREST RATES

5.1 The Authority will continue to receive regular advice from North Yorkshire County Council and its Treasury Management Advisor under the Service Level Agreement.

6.0 BORROWING POLICY AND STRATEGY

6.1 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 need and the need to avoid a distorted loan repayment profile. To date, all of the Authority's external borrowing is with PWLB.

6.2 There are a range of options available to the Authority for the borrowing strategy in 2019/20:

(a) Internal borrowing achieved by running down cash balances and foregoing interest earned at historically low rates. Based on analysis, this continues to be the cheapest borrowing. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking PWLB or market loans at long term rates which will be higher in future years;

(b) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This provides for new borrowing which would spread debt maturities away from a concentration in longer dated debt. PWLB rates are expected to gradually increase throughout the financial year so it would be advantageous to time borrowing accordingly;

(c) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period where available. The current market availability of such loans is, however, very limited and is not expected to change in the immediate future;

(d) Consideration will be given to PWLB borrowing by annuity and Equal Instalments of Principal (EIP) in addition to maturity loans, which have been preferred in recent years;

(e) PWLB rates are expected to gradually increase throughout the financial year so it would therefore be advantageous to time any new borrowing earlier in the year;

(f) borrowing rates continue to be relatively attractive and may remain relatively low for some time; as a result, the timing of any borrowing will need to be monitored carefully. There will also remain a 'cost of borrowing' with any borrowing undertaken that results in an increase in investments incurring a revenue loss between borrowing costs and investment returns.

6.3 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.

External v Internal Borrowing

6.4 Over the next two or three years, investment rates are expected to continue to be below long term borrowing rates. A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings and produce other benefits but is not risk free. The use of internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

6.5 The Authority has undertaken internal borrowing of £2,025,000 to 31st March 2018 and is planning further internal borrowing of £2,300,000 in respect of the 2018/19 capital programme. This option is possible because of the Authority's cash balance with a daily average of £9.9m between the 1st April and 31st December 2018. This consists of cash flow generated (e.g. creditors), core cash (e.g. reserves, balances and provisions) and cash built up through minimum revenue provision due to the majority of debt outstanding being on a maturity basis. Repayment of maturing debt of £1,166,000 is due in 2019/20.

6.6 In considering the use of the internal borrowing option, two significant risks to take into account are:

(a) The implications of day to day cash constraints, and;

(b) Short term saving by avoiding / delaying new long term borrowing in 2019/20 must be weighed against the loss of longer term interest rate stability. Thus there is the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which PWLB long term borrowing rates are forecast to be significantly higher.

6.7 As reported in paragraph 2.1 (iv) above, the use of internal borrowing over the period 2015/16 to 2019/20 reduces the gap between gross debt and the Capital Financing Requirement together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market.

6.8 The general strategy for this "Internal Capital Financing" option will therefore be to actively consider this approach annually. However, this policy will be carefully reviewed and monitored on an on-going basis.

7.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

7.1 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one off costs, or benefits, called respectively premiums and discounts. These occur when the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than current rates, a premium is charged by the PWLB for repayments. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB.

Premature repayment of External Debt

7.2 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2019/20, there may be potential opportunities to generate savings by switching from long term debt to short term debt.

7.3 The premature repayment of long term debt produces the following immediate benefits:

(a) revenue savings achieved derived from the significant current differential between the rate of interest payable on the long term debt repaid and the loss of interest being earned on short term investments

(b) the running down of cash balances limits the investment exposure risk

(c) adjusting the Authority's debt maturity profile to get a more balanced spread of refinancing risk.

7.4 This policy is however not risk free. Any savings need to be considered in the light of the current treasury position and the size of the premiums incurred, their short term nature and the likely costs of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the Authority's exiting debt portfolio.

7.5 No early debt repayment or rescheduling exercises have been effected to date nor are proposed in 2019/20. Higher rate historical rate borrowing continues to be cheaper compared with current repayment premiums and interest rates. The situation will continue to be monitored to identify any opportunities for the Authority's debt portfolio that may arise. Such opportunities, however, are limited in the current economic climate.

8.0 MINIMUM REVENUE PROVISION (MRP) POLICY FOR 2019/20

8.1 Local authorities are statutorily required to pay off an element of accumulated capital expenditure funded from borrowing (Capital Financing Requirement - CFR) through a charge to the Revenue Account (the Minimum Revenue Provision - MRP).

8.2 MHCLG Guidance (revised in 2018) 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 2019/20 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) at that date;

(b) for **capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing Approvals**, MRP will similarly be based on 4% of such sums reflected in subsequent CFR updates;

(c) for **locally agreed Prudential Borrowing (unsupported borrowing) on capital expenditure incurred after 1 April 2008**, 2 options are available:

Asset Life Method - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- Total MRP already made against the asset
- C = Remaining useful life of the asset

Depreciation Method based on equal annual instalments over the estimated life of the asset for which the borrowing is undertaken using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in the Depreciation Method that the asset will still be worth ‘something’ after its useful life has expired.

Until 31st March 2019, the Asset Life Method has been used to calculate MRP. From 1st April 2019, it is proposed to change the method of calculation to the Depreciation Method. This allows the Authority 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 40 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.

(d) For **"on balance sheet" PFI schemes**, MRP will be equivalent to the "capital repayment 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.

8.3 Therefore the Authority's total MRP provision from 1 April 2019 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 2019/20 is estimated to be £1.3m (including £0.38m PFI and finance leases).

9.0 ANNUAL INVESTMENT STRATEGY

9.1 By virtue of the Service Level Agreement with North Yorkshire County 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 2019/20 was approved on 20th February 2019.

9.2 The net return/cost achieved by the County Council is monitored by the Authority's S151 Officer to ensure it does not diverge materially from the budgeted amount.

9.3 Within the terms of the contract the County Council continues to make all investments in accordance with the Local Government Act 2003. The County Council's Investment Strategy has regard to the following:

- MHCLG's Guidance on Local Government Investments (the Guidance)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the Code)
- CIPFA Treasury Management Guidance Notes 2018

NYCC's Investment Policy

9.4 The parameters of the Policy are as follows:

a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect February 2018, and the 2018 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;

b) the County Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then
- the liquidity of its investments (keeping the money readily available for expenditure when needed)

c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;

d) the County Council will not borrow more than or in advance of its need purely in order to profit from the investment of extra sums borrowed;

e) investment instruments for use in the financial year listed under specified and non-specified investment categories; and

f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

10.0 OTHER TREASURY MANAGEMENT ISSUES

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

10.1 The Government's Investment Guidance requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

10.2 The key elements of delegation in relation to Treasury Management are set out in Section 5.7 the Service's Financial Regulations within its Corporate Governance Framework.

Arrangements for Reporting

10.3 Current reporting arrangements for the reporting of Treasury Management activities comprise the receipt by the Police, Fire and Crime Commissioner of an Annual Strategy and plan in advance of the year. The PFCC will receive as a minimum, a mid-year review and an annual report after its close.

SCHEUDLE A

APPROVED LENDING LIST 2019/20

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 £20m 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	75.0	364 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	60.0	364 days	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR		6 months		
HSBC Bank PLC (NRFB)	GBR	30.0	364 days	-	-
HSBC UK Bank PLC (RFB	GBR				
Goldman Sachs International Bank	GBR	60.0	6 months		
Sumitomo Mitsui	GBR	30.0	6 months		
Standard Chartered Bank	GBR	60.0	6 months		
Handelsbanken	GBR	40.0	364 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0	364 days	-	-
Commonwealth Bank of Australia	AUS	30.0	364 days		
Toronto-Dominion Bank	CAN	30.0	364 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	30.0	364 days		
DBS (Singapore)	SING	30.0	364 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	5 years
Police / Fire Authorities		20.0	364 days	5.0	5 years
National Park Authorities		20.0	364 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	5 years
Property Funds		5.0	364 days	5.0	10 years
Housing Associations		20.0	364 days	5.0	5 years
UK Debt Management Account		100.0	364 days	5.0	5 years

* Based on data as 31 December 2018

APPENDIX C

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

CAPITAL STRATEGY

1.0 BACKGROUND

1.1 The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

(a) Capital Expenditure (Paragraph 2)

This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Authority's policies on capitalisation, and an overview of its capital expenditure and financing plans.

(b) Capital Financing and Borrowing (Paragraph 3)

This section provides a projection of the Authority's capital financing requirement, how this is impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

(c) Chief Financial Officer's statement (Paragraph 4)

This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy

1.3 **Alternative Investments**

The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. At the time of writing the Capital Strategy, there are no alternative investment activities that count as capital expenditure being considered by the Authority.

2.0 CAPITAL EXPENDITURE

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;

- 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 these limits are charged to revenue rather than capital.

Governance

2.4 Capital expenditure is a necessary element in the development of the Authority's services since it generates investment in new and improved assets. Capital expenditure is managed through the five year Capital Programme - reviewed annually as part of the budget setting process and reviewed in year as part of financial monitoring arrangements.

2.5 The Authority's Financial Regulations and Contract Regulations provide 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.

2.6 The S151 Officer shall determine the format of the Capital Programme and the timing of reports relating to it. The approved Capital Programme will comprise a number of individual schemes each of which will be quantified on an annualised basis. The Head of Technical Services shall prepare a draft Capital Programme, in consultation with the S151 Officer, for submission to the PFCC. The Capital Programme should identify planned expenditure, and funding, at proposed individual scheme or project level.

2.7 The S151 Officer is responsible for preparing an overall Capital Programme for consideration and approval by the PFCC, the funding of which shall be compatible at all times 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 Financial Regulations and Contract Regulations.

Capital Expenditure and Funding Plans

2.8 The Authority's capital expenditure plans as per the Capital Programme are set out in **Appendix B Paragraph 2(ii).**

2.9 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Authority is able to 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 contributions** - amounts set aside from the revenue budget in the Reserve for Future Capital Funding.

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

2.10 The implications of financing capital expenditure from 'borrowing' are explained in section 3 below.

3.0 CAPITAL FINANCING REQUIREMENT AND BORROWING

Context

3.1 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.

3.2 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.

3.3 A summary of the actual prudential indicators for 2017/18, and the estimates for 2018/19 through to 2021/22, are provided in **Appendix B Paragraph 2**.

Capital Financing Requirement (CFR)

3.4 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 a number of years. It does this in accordance with its policy for the repayment of debt, which is set out in **Appendix B Paragraph 8.**

3.5 The forward projections of the CFR reflect:

- Additional capital expenditure from borrowing or further credit arrangements resulting in an increase to the CFR and

- Revenue budget provision being made for the repayment of debt, which results in a reduction to the CFR.

3.6 The actual CFR for 2017/18 and forward projections for the current and forthcoming years are as follows:

Item	2017/18 Actual £m	2018/19 Probable £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Borrowing	13.5	15.0	15.7	16.4	17.6
Other Long Term Liabilities	3.3	2.7	2.3	2.0	1.7
Total Capital Financing Requirement	**16.9**	**17.7**	**18.0**	**18.4**	**19.3**

3.7 The CFR increases dependent on the level of capital investment and external borrowing undertaken.

External Borrowing Limits

3.8 The Authority is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR). To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- **Authorised limit** – this defines the maximum amount of external debt permitted by the Authority, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.

- **Operational boundary** – this is an estimate of the probable level of the Authority's external debt, and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

3.9 The proposed limits, which are set out in **Appendix B Paragraph 2**, make separate provision for external borrowing and other long-term liabilities, and are based upon an estimate of the most likely but not worst case scenarios. They allow sufficient headroom for fluctuations in the level of cash balances and in the level of the CFR.

3.10 The agreed **Operational Boundary** and **Authorised Limits** for external debt are as follows:

Item	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Debt outstanding at start of year	14.1	13.7	14.2	15.5
+ **External borrowing requirements**				
Capital borrowing requirement	2.3	1.6	1.7	2.3
Replacement borrowing	0.4	1.2	0.4	0.4
MRP charged to Revenue	-0.8	-0.9	-1.0	-1.1
Internally funded variations	-1.9	-0.3	0.6	0.7
Sub-total	14.1	15.4	15.9	17.8
- External debt repayment	-0.4	-1.2	-0.4	-0.4
= **Forecast Debt Outstanding**	**13.7**	**14.2**	**15.5**	**17.4**
+ Other 'IFRS' long term liabilities	2.7	2.3	2.0	1.7

= Operational Boundary for year	**16.4**	**16.5**	**17.5**	**19.1**
+ Provision for cash movements	2.4	2.4	2.4	2.4
= Authorised Limit for year	**18.8**	**18.9**	**19.9**	**21.5**

Borrowing Strategy

3.11 The Authority's Borrowing Strategy is set out in **Appendix B Paragraph 6**.

3.12 The Authority is forecast, from 1st April 2019, to be in 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.

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

- It has enabled the Authority to avoid significant external borrowing costs; and

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

The internal borrowing position will be carefully reviewed and monitored on an ongoing basis in order to consider any changes to borrowing rates as well as current and future cash flow constraints.

3.14 The external borrowing requirement will also be kept under review, and long term external loans will be secured within the parameters established by the authorised limit and operational boundary for external debt.

3.15 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 the light of the current treasury position and the costs associated with such actions.

Minimum Revenue Provision

3.16 The Authority sets cash resources aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as the minimum revenue provision (MRP) for the repayment of debt.

3.17 The Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure which has been financed from borrowing that the Authority has yet to fund from cash resources.

3.18 Statutory guidance requires MRP to be provided annually on a prudent basis. In accordance with the requirement to make a prudent ‘revenue provision for the repayment of debt’, the Authority ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. The revenue budget provision for MRP charges in 2019/20 has been compiled on a basis consistent with this policy.

4.0 SECTION 151 OFFICER STATEMENT

Background

4.1 The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities. Local authorities determine their own programmes for investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

4.2 In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to CIPFA’s Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

4.3 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

4.5 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Section 151 Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;

- submitting quarterly treasury management reports;

- submitting quarterly capital budget 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
- ensuring that the capital strategy is prudent, 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 the 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 understand the risk exposures taken on by an Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.