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

EXECUTIVE BOARD

Report of the Chief Finance Officer

23rd February 2021

TREASURY MANAGEMENT

1.0 Purpose of Report

1.1 To present an updated Annual Treasury Management Strategy for the financial year 2021/22 which incorporates:

a) the Annual Investment Strategy;
b) Capital and Treasury Prudential Indicators, including a Minimum Revenue Provision Policy; and
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.

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 £2,800,000 at 31st March 2021. Depending on the timing of cash flows of receipts and payments throughout the year, balances available for investment daily are likely to increase to around £7,000,000 at points throughout 2021/22. 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 (PFCC) 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 Executive Board considered the Authority's Treasury Management mid-year Review at its meeting on 26th January 2021.

2.9 The Capital Programme underwent significant review during 2018/19 with a significantly reduced Capital Programme being put in place in 2019/20 due to the former plan being unaffordable.

2.10 There continues to be acknowledgement that there are significant areas of the Fire Estate and the equipment used within the service that require update. The current draft programme includes an estimate of works due to the results of the EDI surveys reported to Executive Board in November 2020.

2.11 New station builds at Malton, Scarborough and Northallerton are phased to be complete in 2026/27, 2027/28 and 2028/29 respectively to coincide with the end of the PFI contract in 2027 which will save some £300k per year. This can then be used to fund the MRP and Interest costs of these new builds.

2.12 The programme will be kept under review as regards the outcomes of the Risk and Resource Model reviews which are likely to impact on the priority order of schemes. Also, estimates of costs for both the EDI works and 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. As these plans develop, they will be shared with the PFCC.

2.13 Consideration has also been given to funding of the programme specifically:

(a) 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).

(b) As planned as part of the 2020/21 Medium Term Financial Plan, a capital reserve has been created in year through revenue contributions to capital. The Authority will plan to borrow to fund Estates and Fleet expenditure and the revenue contribution creates a reserve which moves up and down in line with the Capital plan to fund IT expenditure and other capital requirements. Over the period 2021/22 to 2023/24 it is planned to fund £2,479,000 of such expenditure from the reserve with a forecasted reserve balance of £492,000 at the end of the four-year period as set out below:

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Earmarked Capital Reserve:	£000	£000	£000	£000	£000
1st April brought forward	0	135	201	467	90
Revenue Contribution in year	135	546	585	904	801
Used to fund capital in year	0	-480	-320	-1,280	-399
31st March carried forward	**135**	**201**	**467**	**90**	**492**

A borrowing strategy incorporating these elements reduces the rate of increase and the incidence of capital financing costs over the period 2021/22 and 2024/25 delivering financial savings for the Authority, whilst also mitigating credit risk through holding investments in the market.

3.0 Treasury Management reporting

3.1 The Authority is currently 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 providing an update 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.

4.0 Annual Treasury Management Strategy and Investment Strategy and Minimum Revenue Provision Policy 2021/22

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.** The Prudential indicators will be set based on the Capital Plan included within the Medium-Term Financial Plan (MTFP) 2021/22 to 2024/25.

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**

4.2 Treasury Management Strategy 2021/22

The Treasury Management strategy for 2021/22 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**

- treasury indicators which limit the treasury risk and activities of the Authority
- the current treasury position
- 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.

4.3 **Treasury Management Policy Statement (TMPS)**

- stating the Authority's policies, objectives, and approach to risk management of its Treasury Management activities

- a framework of suitable **Treasury Management Practices** (TMPs) setting out the way 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.

The Treasury Management Policy Statement is attached as **Appendix A** and reflects only very minor changes for 2021/22.

4.4 **Annual Investment Strategy**

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 current Annual Treasury Management and Investment Strategy for 2020/21 was approved on 28th February 2020.

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.

4.5 **Minimum Revenue Provision Policy (MRP)**

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.

4.6 **Capital Strategy**

The aim of the capital strategy is to ensure that those in charge of governance, and Officers fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. It includes:

- 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 Capital Strategy is attached at **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 2021/22 (**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.

6.0 Recommendations

6.1 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 2021/22 as detailed in **Appendix B** and in particular:

(i) an authorised limit for external debt of £20.0m in 2021/22

(ii) an operational boundary for external debt of £19.0m in 2021/22

(iii) the Prudential and Treasury Indicators

(iv) a limit of 20% (estimated at £560,000) 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 2021/22 as set out in **paragraph 2** which incorporates a change in the estimated general life of land and buildings to be between 40 to 50 years for the purposes of calculating MRP on capital expenditure incurred after 31st March 2021

(vi) the Capital Strategy as attached as **Appendix C**

(vii) the Chief Finance Officer report to the PFCC/Executive Board 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 way 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 of 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 Chief Finance 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 Chief Finance Officer 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** 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** and

(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; and

(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 PFCC 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 way 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 Code 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 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 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 PFCC 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 Chief Finance Officer.

APPENDIX B

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

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2021/22

1.0 PRUDENTIAL INDICATORS 2021/22 TO 2023/24

1.1 **<u>Prudential Indicators</u>**

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 year 2021/22.

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) 2021/22 to 2024/25.

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision:					
PWLB Borrowing	824	823	957	1,163	1,273
Finance Lease	178	169	176	79	86
PFI	205	138	111	160	275
Interest Payable:					
PWLB borrowing	550	510	514	572	596
Finance Lease	28	24	16	9	2
PFI	358	304	279	309	387
Interest receivable	-66	-33	-21	-21	-21
Financing Costs	**2,077**	**1,937**	**2,031**	**2,272**	**2,597**
Net Revenue Stream	**31,015**	**32,062**	**32,918**	**33,797**	**34,698**
Ratio	**6.7%**	**6.0%**	**6.2%**	**6.7%**	**7.5%**
Ratio - Excluding PFI	5.1%	4.8%	5.1%	5.4%	5.6%

In 2021/22 the actual cost of financing is expected to be £2,031k: however, of this, £390k is attributable to the PFI schemes (£111k of MRP and £279k of interest). These PFI charges are covered by separate PFI grants.

1.6 Prudence`

(i) **Capital Expenditure - Actual and Forecasts**

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	**1,919**	**1,185**	**4,775**	**3,901**	**3,682**
Funded by:					
Internal Borrowing	1,424	775	0	0	0
External Borrowing	0	0	3,891	3,102	2,457
Other Capital resources	495	410	885	799	1,225

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, after use of other capital resources, are set out above. Other capital resources include capital receipts and capital reserve transfers where required.

(ii) **Capital Financing Requirement (CFR)**

The CFR is the capital expenditure incurred historically by the Authority that has yet to be financed (i.e. external debt less Minimum Revenue Provision).

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.

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Opening Capital Financing Requirement	**16,826**	**17,144**	**16,788**	**19,436**	**21,136**
Unsupported Borrowing to fund Capital Exp.	1,526	775	3,891	3,102	2,457
Minimum Revenue Provision:					
Supported Borrowing	-255	-245	-235	-225	-216
Unsupported Borrowing	-569	-579	-722	-938	-1,057
PFI and Finance Leases	-384	-308	-287	-238	-361
Closing Capital Financing Requirement	**17,144**	**16,788**	**19,436**	**21,136**	**21,959**

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 2021/22 and the next two financial years.

	2020/21	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Investments	-2,800	-2,800	-2,800	-2,800
Net Borrowing	**11,396**	**14,656**	**17,151**	**17,701**
Total CFR for borrowing purposes	**16,788**	**19,436**	**21,136**	**21,959**

The projected forecasts detailed in the table above show that there is still some margin between the net borrowing and the CFR and therefore the PFCC is well within the limits required.

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

(a) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PFCC. Borrowing beyond this limit would be ultra vires. The provision of temporary borrowing allows for temporary short-term borrowing in year to allow for cash flow movements.

(b) The **Operational Boundary** which is based on the probable external debt during the year. It includes scope for borrowing for revenue purposes that 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	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Provision for Temporary Borrowing	2,500	2,500	2,500	2,500
Net Borrowing	**16,696**	**19,956**	**22,451**	**23,001**

Operational Boundary for External Debt	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Provision for Temporary Borrowing	1,500	1,500	1,500	1,500
Net Borrowing	**15,696**	**18,956**	**21,451**	**22,001**

(v) **Actual External Debt**

Actual External Debt	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Actual External Debt	**14,196**	**17,456**	**19,951**	**20,501**

1.7 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

	Lower Limit	Upper Limit
Due within:	%	%
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	50.0
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 £560,000 (20%) of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments.

2.0 MINIMUM REVENUE PROVISION (MRP) POLICY FOR 2021/22

2.1 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).

2.2 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 2021/22 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
- B = 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.

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 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.

(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.

2.3 Therefore the Authority's total MRP provision from 1 April 2021 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 2021/22 is estimated to be £1.2m (including £0.3m PFI and finance leases).

3.0 CURRENT TREASURY POSITION

3.1 The Authority's treasury portfolio position at 31st December 2020 consisted of:

	31st December 2020	
	Principal Outstanding	Average Interest Rate
	£m	%
External Debt		
Fixed Rate		
- PWLB	12.4	4.4
- Other Institutions	0.0	0.0
Variable Rate	0.0	0.0
	12.4	**4.4**
Cash Available		
- Invested short term with NYCC	5.0	0.3
- Current Accounts	0.0	0.0
	5.0	**0.30**

4.0 BORROWING STRATEGY

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

4.2 There are a range of options available to the Authority for the borrowing strategy in 2021/22:

(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 rates are expected to gradually increase in the second half of the financial year so it would be advantageous to time any new external borrowing earlier in 2021/22.

4.3 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.

Borrowing rates

4.4 Borrowing interest rates fell to historically very low rates because of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, in October 2019, the unexpected increase of 100 bps in PWLB rates required an initial major rethink of local authority treasury management strategy and risk management. More recently between March and July 2020, HM Treasury ran a consultation on the future lending terms of the PWLB. The aim of the consultation was to develop an equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impending their ability to pursue service delivery. In response to the consultation, the Government has published new PWLB lending terms which took effect from 26th November 2020 alongside the Chancellor announcing that PWLB rates will be cut by 100 basis points taking offered rates back to where they were in October 2019. This has lowered the cost of borrowing for local authorities helping them to move ahead with planned projects. The new lending terms include the requirement for local authorities to submit a summary of planned capital spending for the following three years to be able to borrow.

4.5 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it has remained unchanged. As shown in the table below, no increase in Bank Rate is forecast suggesting economic recovery is expected to be only gradual and, therefore, prolonged.

4.6 The **current interest rate forecasts** of NYCC's Treasury Management Advisors (Link Asset Services - Treasury Solutions) are as follows:

		PWLB			
	Bank Rate	**5 year**	**10 year**	**25 year**	**50 year**
	%	%	%	%	%
Current - December 2020	0.10	0.80	1.10	1.50	1.30
March 2021	0.10	0.80	1.10	1.50	1.30
September 2021	0.10	0.80	1.10	1.60	1.40
March 2022	0.10	0.90	1.20	1.60	1.40
September 2022	0.10	0.90	1.30	1.70	1.50

External v Internal Borrowing

4.7 The Authority has undertaken internal borrowing of £3,396,000 to 31st March 2020 and is planning further internal borrowing of £775,000 in respect of the 2020/21 capital programme. This option is possible because of the Authority's cash balance with a daily average of £6,447,000 between the 1st April and 31st December 2020. 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 most debt outstanding being on a maturity basis. Repayment of maturing debt of £402,000 is due in 2021/22.

4.8 In considering the use of the internal borrowing option, two significant risks considered are:

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

(b) Short-term saving by avoiding / delaying new long-term borrowing in 2020/21 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.

4.9 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.

5.0 POLICY ON BORROWING IN ADVANCE OF NEED

5.1 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 forward approved Capital Financing Requirement estimate and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

(a) there is a clear business case for doing so for the current Capital Plan;

(b) it will be used to finance future debt maturity repayments;

(c) it will offer value for money can be demonstrated; and

(d) the Authority can ensure the security of such funds which are subsequently invested

5.2 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.

6.0 REVIEW OF LONG-TERM DEBT AND DEBT RESCHEDULING

6.1 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

6.2 No early debt repayment or rescheduling exercises have been affected to date nor are proposed in 2021/22. 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.

7.0 ANNUAL INVESTMENT STRATEGY

7.1 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 2021/22 was approved by its Executive Board on 26th January 2021 and will go to County Council for formal approval on 17 February 2021.

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

7.3 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

The County Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

7.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The County 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 County Council will engage with its advisors to monitor 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 County 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.

- **Non-specified investments** are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by 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.

non-specified investments limit. The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio, (£40m).

e) **Lending limits**, (amounts and maturity), for each counterparty will be set.

f) the County Council will set a limit for its investments which are invested for **longer than 365 days**.

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

h) the County 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 County Council in the context of the expected level of cash balances and need for liquidity throughout the year; and

i) all investments will be denominated in **sterling**.

7.5 The County 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.

7.6 As a result of the change in accounting standards for 2020/21 under IFRS 9 Financial Instruments, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. However, it is expected that such changes will not be applicable to its financial statements.

Creditworthiness Policy

7.7 The County Council applies the creditworthiness service provided by Link Asset Services. 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.
- 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 County Council to determine the suggested duration for investments.

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

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

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

7.11 Sole reliance will not be placed on the use of this external service. In addition, the County 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.

Investment strategy

7.12 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.

7.13 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements of authorities within the pool 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. While most cash balances are required to manage daily cash flow requirements, 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:

- if it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable; or
- conversely, if it is thought that Bank Rate is likely to fall within that time, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.14 **Investment returns expectations.** Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

7.15 The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the pandemic.

7.16 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 to12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

8.0 OTHER TREASURY MANAGEMENT ISSUES

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

8.1 The Government's Investment Guidance requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Chief Financial Officer in the Annual Treasury Management/Investment Strategy.

8.2 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

8.3 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.

SCHEDULE A

APPROVED LENDING LIST 2021/22

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	75.0	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	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	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
HSBC Bank PLC (NRFB)	GBR	30.0	365 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		
Handlesbanken	GBR	40.0	365 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	365 days	-	-
Commonwealth Bank of Australia	AUS	30.0	365 days		
Toronto-Dominion Bank	CAN	30.0	365 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	30.0	365 days		
DBS (Singapore)	SING	30.0	365 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	365 days	5.0	5 years
Police / Fire Authorities		20.0	365 days	5.0	5 years
National Park Authorities		20.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		20.0	365 days	5.0	5 years
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		100.0	365 days	5.0	5 years

Based on data as 31 December 2020

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 several 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 Finance Officer's statement (Paragraph 4)

This section contains the Chief Finance 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; 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 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 Code of Corporate Governance 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.

2.6 The Chief Finance Officer shall determine the format of the Capital Programme and the timing of reports relating to it. The approved Capital Programme will comprise several individual schemes each of which will be quantified on an annualised basis. Relevant Budget Holders will prepare a draft Capital Programme, in consultation with the Chief Finance 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 Chief Finance 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.

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 1.6(i).**

2.9 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 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 several 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 2019/20, and the estimates for 2020/21 through to 2023/24, are provided in **Appendix B Paragraph 1**.

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 several years. It does this in accordance with its policy for the repayment of debt, which is set out in **Appendix B Paragraph 2.**

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 2019/20 and forward projections for the current and forthcoming years are as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Opening Capital Financing Requirement	**16,826**	**17,144**	**16,788**	**19,436**	**21,136**
Unsupported Borrowing to fund Capital Exp.	1,526	775	3,891	3,102	2,457
Minimum Revenue Provision:					
Supported Borrowing	-255	-245	-235	-225	-216
Unsupported Borrowing	-569	-579	-722	-938	-1,057
PFI and Finance Leases	-384	-308	-287	-238	-361
Closing Capital Financing Requirement	**17,144**	**16,788**	**19,436**	**21,136**	**21,959**

3.7 CFR increases are 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:

(a) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PFCC. Borrowing beyond this limit would be ultra vires. The provision of temporary borrowing allows for temporary short-term borrowing in year to allow for cash flow movements.

(b) The **Operational Boundary** which is based on the probable external debt during the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed.

The proposed limits, which are set out in **Appendix B Paragraph 1.6**, 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.

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

Authorised Limit for External Debt	2020/21	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Provision for Temporary Borrowing	2,500	2,500	2,500	2,500
Net Borrowing	**16,696**	**19,956**	**22,451**	**23,001**

Operational Boundary for External Debt	2020/21	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	12,192	15,739	18,472	19,384
PFI and Finance Leases	2,003	1,717	1,478	1,117
Provision for Temporary Borrowing	1,500	1,500	1,500	1,500
Net Borrowing	**15,696**	**18,956**	**21,451**	**22,001**

Borrowing Strategy

3.9 The Authority's Borrowing Strategy is set out in **Appendix B Paragraph 5**.

3.10 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.

3.11 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.

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

3.13 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.

3.14 Further long-term external borrowing may be undertaken, in excess of the current forecasts, if it is not possible or desirable to sustain the anticipated internal borrowing position.

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 2021/22 has been compiled on a basis consistent with this policy.

4.0 CHIEF FINANCE 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.

4.4 The Prudential Code requires the Chief Finance 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 treasury management reports.
- submitting 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 the 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.