

Report of the Assistant Director of Resources (Finance Lead for Policing, Fire and Crime) to the Mayor of York and North Yorkshire.

25th February 2025

Status: For Decision

Treasury Management, Prudential Indicators, Investment Strategy and Capital Strategy

1. Purpose

- 1.1 While there is no longer a separate PFCC as a separate Authority in terms of being a standalone statutory organisation, and all the responsibilities of the previous PFCC sit with the Mayoral Combined Authority, there is still separation of many of the financial processes at this stage.
- 1.2 There remain separate Banking functions for Policing, as well as separate and distinct Policing Budgets, including a separate Police Fund, as well as a separate Capital Programme and associated borrowing.
- 1.3 Within the wider Mayoral Combined Authority structure, it therefore makes sense to continue to set for Policing a separate Annual Treasury Management Strategy Statement for the financial year 2025/26 which incorporates:
 - a) a Treasury Management Strategy.
 - b) Capital and Treasury Prudential Indicators, including a Minimum Revenue Provision Policy.
 - c) a Borrowing Strategy.
 - d) an Annual Investment Strategy; and
 - e) a Capital Strategy.
- 1.4 The references within this document to 'Authority' therefore relate to the 'PCC' Element of the Mayoral Combined Authority and do not refer to and/or relate to either the Fire budget or the 'wider' Mayoral Budget

The Treasury Management Strategy sets out the requirements for the overall Treasury, Borrowing, Investment and Capital Policies. The content of this report addresses this requirement.

The strategic approach is set out in the following:

1.2 **Capital Prudential Indicators** (See Paragraph 4)

The Capital Prudential Indicators set out the capital expenditure plan and associated indicators, capital financing requirement (£21.1m in 2025/26) and the monitoring of core funds and investment balances. The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

The Prudential Indicators have been revised and updated in line with the latest CIPFA Code of Practice.

1.3 **Borrowing Strategy** (See Paragraph 5)

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

- The Authorised Limit for External Debt (the legal limit beyond which external debt is prohibited), £20.211m in 2025/26; and
- The Operational Boundary for External Debt (the limit beyond which external debt is not normally expected to exceed), £17.211m in 2025/26.

1.4 **Annual Investment Strategy** (See Appendix A)

The Annual Investment Strategy details the Authority's Investment Policy and approach to the investment of funds.

1.5 **Capital Strategy** (See Appendix B)

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

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.
- The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

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

2. Recommendations

The Mayor is asked to:

- 2.1 Approve the Treasury Management Strategy for 2025/26 incorporating the Prudential Indicators, set out in Paragraph 4.
- 2.2 Approve the Annual Investment Strategy set out at Appendix A.
- 2.3 Note that future investments will be placed in line with the strategy in Appendix A.
- 2.4 Approve the Capital Strategy, including the Minimum Revenue Provision Policy, set out at Appendix B

3. TREASURY MANAGEMENT STRATEGY 2025/26

3.1 Treasury Management Reporting

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

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

- a) Treasury Management Strategy (this report) - is forward looking and covers:
- the capital plans, (including prudential indicators)
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management strategy, (how the investments/borrowings are to be organised), including treasury indicators; and
 - an investment strategy, (the parameters on how investments are to be managed).
- b) A mid-year treasury management report - primarily a progress report and will update the Mayor/Deputy Mayor 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.

3.2 Training

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

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

4. CAPITAL PRUDENTIAL INDICATORS 2025/26 - 2028/29

- 4.1 The Prudential Code requires authorities (including the Mayor) 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. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.
- 4.2 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.

- 4.3 The Mayor/Deputy Mayor 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.

The required Prudential Indicators are as follows:

- Capital Expenditure - Actual and Forecasts
- Ratio of Finance Costs to Net Revenue Stream
- Capital Financing Requirement
- Gross Borrowing and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Actual External Debt
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.4 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 Mayoral Policing finances. The Mayor is requested to approve the following:

4.4.1 Estimates of capital expenditure

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

| Capital Expenditure | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---------------|---------------|--------------|--------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £000 |
| Capital Expenditure | 13,773 | 11,114 | 8,218 | 7,053 | 10,997 |
| Total Capital Expenditure | 13,773 | 11,114 | 8,218 | 7,053 | 10,997 |
| Funded By: | | | | | |
| Gross Borrowing | 5,004 | 4,211 | 707 | 158 | 1,197 |
| | | | | | |
| %age of Expenditure funded by Borrowing | 36.3% | 37.9% | 8.6% | 2.2% | 10.9% |

The current plans assume that there will be a recurring requirement to borrow to fund capital expenditure on the Building Estate. While this is prudent in the short and medium term, when the overall level of borrowing in the organisation is low, and interest rates are currently volatile, it is important to ensure that there is a longer-term Estates Strategy to ensure that this remains an affordable strategy going forward.

It is important to recognise that borrowing beyond these levels will incur additional revenue costs and the organisation should think very carefully before doing this.

4.4.2 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|----------------|----------------|----------------|----------------|----------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| Financing Costs to Net Revenue Streams | £000 | £000 | £000 | £000 | £001 |
| Minimum Revenue Provision (MRP) | 491 | 616 | 689 | 739 | 743 |
| Interest Payable on Borrowing | 147 | 370 | 370 | 370 | 340 |
| Interest Receivable | (1,351) | (995) | (808) | (611) | (495) |
| Financing Costs | (714) | (9) | 251 | 498 | 587 |
| Net Revenue Stream | 194,113 | 204,612 | 211,835 | 219,127 | 226,003 |
| Ratio % | -0.4% | 0.0% | 0.1% | 0.2% | 0.3% |

The ratio of finance costs to net revenue stream is zero or below in the earlier years due to their being more interest earned on investments compared to the cost of the borrowing. In later years the cost of borrowing compared to the net revenue stream remains low but does start to grow, this means that more of the revenue budget will be required to meet the financing costs of debt.

4.4.3 Estimates of capital financing requirement (CFR)

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

It measures the Mayor's underlying need to borrow for capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure. The Borrowing (both Internal and External) included within the plans increases the Capital Financing Requirement (CFR).

The Mayor is asked to approve the following CFR projections:

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---------------|---------------|---------------|---------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| Capital Financing Requirement | £000 | £000 | £000 | £000 | £001 |
| Opening Capital Financing Requirement | 12,987 | 17,500 | 21,095 | 21,113 | 20,532 |
| Unsupported borrowing to fund Capital Expenditure | 5,004 | 4,211 | 707 | 158 | 1,197 |
| Total CFR Base on which MRP is calculated | 17,990 | 21,711 | 21,802 | 21,271 | 21,729 |
| MRP on Borrowing | (491) | (616) | (689) | (739) | (743) |
| Total CFR Base for borrowing purposes | 17,500 | 21,095 | 21,113 | 20,532 | 20,986 |

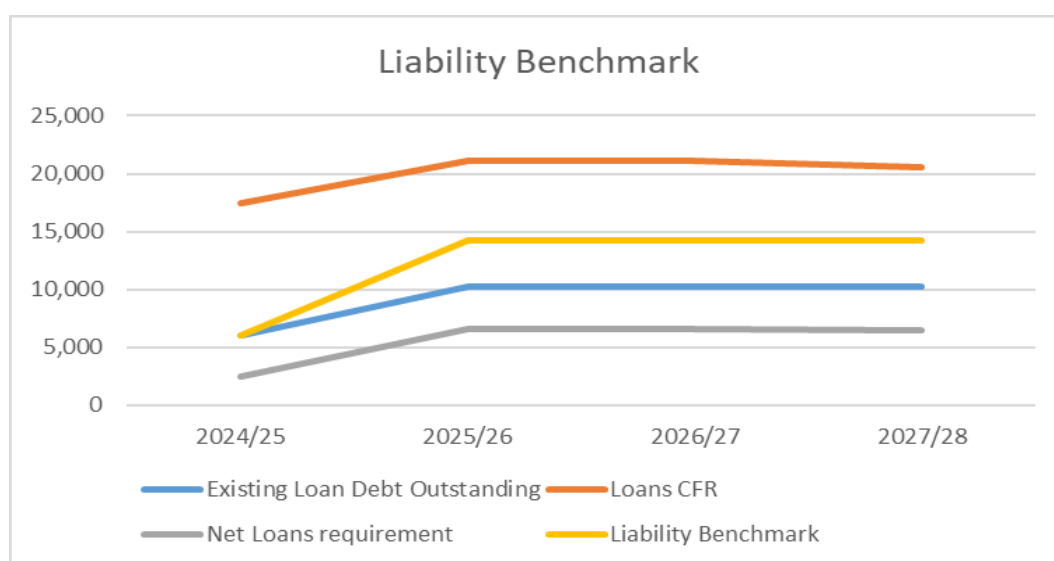
The Mayor is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

4.4.4 The Liability Benchmark

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

There are four components to the Liability Benchmark: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations, for example.



4.4.3 Limits to Borrowing Activity

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

For the first of these, the Mayor should ensure that its debt gross 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 2025/26 and the next two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

| Gross Borrowing and the Capital Financing Requirement (CFR) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---------------|---------------|---------------|---------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £001 |
| Debt at 31 March | 6,000 | 10,211 | 10,211 | 10,211 | 10,211 |
| Total CFR | 17,500 | 21,095 | 21,113 | 20,532 | 20,986 |
| Under / (Over) borrowing | 11,500 | 10,884 | 10,901 | 10,321 | 10,775 |

The projected forecasts detailed in the table above show that there is still some margin between the gross borrowing and the CFR and therefore the Mayor is well within the limits required and can be assured that any borrowing that is forecast to be taken out over the coming years would not be to support revenue expenditure.

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

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

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

The Mayor is asked to approve the following limits:

| Operational Boundary for External Debt | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|--------------|---------------|---------------|---------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £001 |
| Borrowing | 6,000 | 10,211 | 10,211 | 10,211 | 10,211 |
| Provision for Temporary Borrowing | 3,000 | 7,000 | 7,000 | 7,000 | 7,000 |
| | 9,000 | 17,211 | 17,211 | 17,211 | 17,211 |

| Authorised Limit for External Debt | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|------------------------------------|--------------|---------------|---------------|---------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £001 |
| Borrowing | 6,000 | 10,211 | 10,211 | 10,211 | 10,211 |
| Provision for Temporary Borrowing | 0 | 10,000 | 10,000 | 10,000 | 10,000 |
| | 6,000 | 20,211 | 20,211 | 20,211 | 20,211 |

The operational boundary allows for additional temporary borrowing for unforeseen cash outflows.

4.4.3.3 Actual External Debt

| Actual External debt | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|----------------------|--------------|---------------|---------------|---------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £001 |
| Borrowing | 6,000 | 10,211 | 10,211 | 10,211 | 10,211 |

4.5 Treasury Management Indicators

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

4.5.1 Maturity Structure of Debt

These gross limits are set to reduce the Mayor's exposure to large-fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the Mayor is asked to approve.

| Maturity Structure of Debt | 2024/25 | | 2025/26 | | 2026/27 | | 2027/28 | | 2028/29 | |
|----------------------------------|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|
| | Lower | Upper | Lower | Upper | Lower | Upper | Lower | Upper | Lower | Upper |
| Under 12 months | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% |
| Over 12 months and under 2 years | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% |
| Over 2 years and under 5 years | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% | 0% | 50% |
| Over 5 years and under 10 years | 0% | 75% | 0% | 75% | 0% | 75% | 0% | 75% | 0% | 75% |
| Over 10 years | 0% | 100% | 0% | 100% | 0% | 100% | 0% | 100% | 0% | 100% |

As the Mayor moves into a position of having more external debt then it becomes important to consider the timeframes under which these loans are taken out, when they will be re-paid and how this aligns with other debt repayments to ensure that all loans don't fall due for repayment at the same

time or require re-financing at the same time, when interest rates might be higher than long term averages.

4.5.2 **Upper Limit for Sums Invested for a Period of over 364 days**

This indicator sets a limit on the level of investments that can be made for more than 364 days. The Mayor does not provide approval to invest beyond a 1-year period and at this stage it is not currently proposed to change this proposal.

5. BORROWING STRATEGY 2025/26

- 5.1 The main strategy for undertaking new borrowing continues to be to take advantage of the lowest rates consistent with prudent asset management.
- 5.2 In practical terms, the policy of the Authority is to finance capital expenditure on Estates by borrowing (from the Public Works Loan Board or the money markets), on average, over periods which reflect the life of the Authority's assets, or other appropriate periods.
- 5.3 The strategy also focuses on borrowing over periods where there is no concentration of debt so to achieve a balanced spread in the Authority's debt maturity profile.
- 5.4 Given the wider financial resources of the YNYCA then borrowing within the overall Group will be considered before external borrowing takes place.

6. ANNUAL INVESTMENT STRATEGY 2025/26

- 6.1 The proposed Annual Investment Strategy for 2025/2026 is attached at Appendix A.
- 6.2 Returns on Investments
While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list previously has restricted the returns, in the form of interest receivable, which the Mayor could make. It is proposed within the Investment Strategy that fewer restrictions are put in place, but not at expense of taking unnecessary risks.
- 6.3 Interest rate forecasts in November 2025 are as follows:

| Link Group Interest Rate View | 11.11.24 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month ave earnings | 4.70 | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 yr PWLB | 5.30 | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 yr PWLB | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 yr PWLB | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

* PW

LB Rates are shown net of 0.2% discount at the certainty rate

The Link forecast for interest rates, updated on 11 November, reflected the outcome of the US Presidential Election and the 30th October UK budget announcements. In summary, Link's Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst their PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

Link forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

6.4 The Assistant Director of Resources continues to monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the Authority than PWLB loans. To date, all Authority borrowing is with PWLB.

6.5 Counterparty Limits

As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £15 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £20 million.
- Investments made directly with the UK Government through the Debt Management Officer (DMO) have an uncapped 'limit'.

There is no limit for DMO investments as this is as close to zero risk that can be achieved in the investment of public money. The organisation will always prioritise the security of capital and liquidity of funds whilst taking the

opportunity to achieve the best return possible where an uncapped 'limit' with the DMO should provide greater scope for investments at a reduced/lower risk.

- 6.6 For non-specified counterparties these are:
- The maximum investment with any counterparty is £10 million.
 - The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £15 million.

7. Implications

7.1 Finance

There are no financial implications arising from this report that is not included above.

7.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the Mayor's attention.

7.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

7.4 Sustainability

This report is part of the process to establish sustainable annual and medium-term financial plans and maintain prudent financial management.

7.5 Risk

The investment strategy put forward seeks to minimise the risks of the Mayor while ensuring that the cash balances of the Mayor are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

8. Conclusions

- 8.1 To comply with the CIPFA Prudential Code of Practice and Treasury Management Code of Practice the Mayor is required to set prudential Indicators for a three-year period alongside the annual Revenue Budget/Medium Term Financial Strategy each year.
- 8.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.
- 8.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

- 8.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

APPENDIX A

Annual Investment Strategy

The Mayor will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are:

- the security of capital; and
- the liquidity of its investments.

The Mayor will also aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. The Mayor's risk appetite is low to give priority to security of investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Mayor will not engage in such activity.

Investment instruments are identified as either 'Specified' or 'Non-Specified' Investments. The Mayor's available instruments are listed in the paragraph below. Counterparty limits will be as set through the Treasury Management Practices.

Limits and Definition of Specified Investments

It is proposed that the Annual Investment Strategy for 2025/26 is based upon the use of the "specified" investments listed below:

- The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- The investment is made with the Mayor's own bank.
- The investment is made with a Nationalised Bank or Building Society
- The investment is made with a Bank or Building Society that is part owned by the UK Government

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments.

All Specified Investments must be denominated in sterling and must be one where the Mayor may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any counterparty is £15 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £20 million.
- Investments made directly with the UK Government through the Debt Management Officer (DMO) have an uncapped 'limit'.

There is no limit for DMO investments as this is as close to zero risk that can be achieved in the investment of public money. The organisation will always prioritise the security of capital and

liquidity of funds whilst taking the opportunity to achieve the best return possible where an uncapped 'limit' with the DMO should provide greater scope for investments at a reduced/lower risk.

Limits and Definition of Non-Specified Investments

These are any other type of investment (i.e. not defined as specified above).

All Non-Specified Investments must be denominated in sterling. The Mayor has determined that it will only use approved counterparties within the UK. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £15 million.

APPENDIX B

CAPITAL STRATEGY

INTRODUCTION

The Capital strategy is part of the Mayor's Corporate Planning Strategy. It provides a mechanism by which the capital investment and financing decisions can be aligned over the short, medium, and long term.

The strategy sets the framework for all aspects of the Mayor's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding, and repayment. This strategy has direct links to the other plans of the Mayor such as the Estates Strategy and Digital/ICT Strategy and forms a key part of the Medium-Term Financial Plan (MTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy.

The operation of all of these strategies and plans is underpinned by the Code of Corporate Governance and aligns with the Financial Regulations and Standing Orders.

The strategy will be updated and approved annually by the Mayor.

OBJECTIVES

The key aims of the Capital Strategy are;

- To provide a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the Mayor has set out in the Police and Crime Plan.
- Set out how the Mayor identifies, programmes, and prioritises capital requirements and proposals.
- Consider the options available for funding of capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework whilst minimising the revenue implications of such schemes.
- Identify the resources available for capital investment over the planning period of the MTFP.
- Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.
- Deliver projects that focus on delivering the long-term benefits of Policing as detailed in the Police, and Crime Plan.

GOVERNANCE OF THE CAPITAL PROGRAMME

Governance processes are in place and follow Financial Regulations and Standing Orders to ensure that the resources are allocated optimally and deliver value for money.

The capital programme is determined from consultation with stakeholders and in parallel with the revenue budget planning process and the development of the MTFP. These processes include:

- The approval of the Capital Strategy, Capital Plan, Annual Investment Strategy and Treasury Management Policy by the Mayor.
- These policies, plans and strategies being published on the OPFCC website as Decision Notices.
- Scrutiny of the Decision Notices by the Police and Crime Panel.

Any new capital project is subject to thorough evaluation which includes:

- A business case, resources and finance request submitted to the Change Board which includes the details of the scheme, estimated costs and income, staffing implications, benefits of change and other impacts. These will be appraised by the Board and recommendations made to the Executive Board as needed.
- Subject to the proposal being approved by the Executive Board, the business case will be reported to the Mayor/Deputy Mayor, and a decision notice signed and published by the Mayor/Deputy Mayor as required.
- Quarterly monitoring reports will be submitted to the Deputy Mayor at the Executive Board by the Chief Financial Officer for the Force. These reports will show spending to date and compare projected expenditure to approved budgets. The reports will identify the changes to the capital programme to reflect:
 - New resource allocations
 - Slippage in programme delivery
 - Programmes reduced or removed
 - Virements between schemes and programmes to maximise delivery
 - Revisions to spending profiles and funding to ensure ongoing revenue costs are minimised.

Depending on the size of the project, a programme board may be set up with the key stakeholders to manage and take the project forward and to identify any risks which may affect the project or the organisation. Any risks deemed high for the organisation will be taken to the Risk Board. All projects are required to follow contract standing order requirements and procurement processes.

CAPITAL PRIORITIES

The capital strategy recognises that the financial resources that are available to the Mayor are constrained. The Mayor must therefore seek ways to ensure that investment decisions meet the objectives of the Police and Crime Plan and are within the limited resources available. The strategy is required to deliver policing in line with the Mayor's vision and the capital plan is built on the emerging themes arising from the Force's Estates, Digital/ICT and Fleet strategies.

The assets owned by the Mayor are vital for the delivery of the Police and Crime Plan and the capital priorities are for sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save decisions.

FUNDING APPROACH

The Mayor's capital investment falls within and is required to comply with the 'Prudential Code for Capital Finance in Local Authorities 2017' (the Code). Under the Code, the Mayor has greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver the capital plans and programme.

There are a range of potential funding sources which can be generated locally either by the Mayor or in partnership with others. The Mayor continues to seek new levels of investment to match against the capital programme and may include additional receipts from land sales, developer opportunities and joint funding opportunities.

This strategy which informs the MTFP is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP whilst ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcome of the strategy.

The main sources of capital funding are:

1. Central government
 - a. Specific grant allocations- grants are allocated in relation to specific programmes or projects and the Mayor will seek to maximise this to address priority needs in policing
 - b. The Mayor will continue to bid for future resource allocations as they become available.
2. Internal Balances
 - a. Interest rates over recent years have remained low and therefore external borrowing has been prudent, but interest rates are likely to increase in future years. Internal borrowing can be used to support the capital programme when the financial position of the Mayor allows for this.

3. Capital receipts
 - a. Receipts that have been obtained from the sale of property, plant and equipment and are available only for the funding of capital schemes.
4. Reserves
 - a. Any funding that has been allocated in a specific year but is not required until future years will be carried forward in an earmarked reserve. These reserves will vary from year to year depending upon the level of funding available and the timing of projects.
 - b. Reserves can be created from most funding sources (Direct Revenue Funding, Grants, Receipts and Insurance receipts and reserves).
 - c. Working with other public sector bodies and partners may bring additional opportunities for securing additional funding and this should be undertaken whenever possible.
5. Investment
 - a. The Mayor will continue to work with the investors to utilise redundant assets and vacant land to bring them to a useful economic purpose. Capital receipts from the disposal of assets represent a finite source of funding and it is important that a planned and structured manner of disposals is created to support the priorities of the Mayor. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or to offset future debt or transitional costs.
 - b. The Mayor will continue to work with other partners and agencies to consider projects that are mutually beneficial to the development of policing in North Yorkshire.
 - c. Various mechanisms provide opportunities to enhance the Mayor's investment potential with support and contributions from other third parties and local strategic partners. They may range from commissioning/facilitating others to develop services in policing.
6. Revenue
 - a. Capital expenditure may be funded directly from revenue (Direct Revenue Funding). In addition to specific revenue funds that have previously been set aside as earmarked reserves, capital expenditure may be funded by specific revenue budget provision.

BORROWING AND LEASING

Under the Prudential Code, the Mayor has discretion to undertake borrowing to fund capital projects with the full cost of the borrowing being funded from project returns or from revenue.

This discretion is subject to the Mayor complying with the Code's framework which requires any such borrowing to be prudent, affordable, and sustainable. Prudential borrowing does provide an option for funding additional capital projects, but this must be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

The Mayor will test the Prudential Indicators annually as part of the MTFP process and report upon the progress when setting the future Prudential Indicators.

BALANCED PORTFOLIO APPROACH

Resources will be allocated to programmes based upon asset values to manage the long-term yield and revenue implications. Capital receipts will be focussed on those assets with a short-term life span and the unsupported borrowing on long term assets. Surplus receipts will be assigned to finance the capital programme in the most economic way to ensure the minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) as informed by the MTFP.

All capital schemes need to reflect the full development purchase costs including property taxes and fees. Business cases will include all lifetime costs (both revenue and capital) and income proposals. Where necessary, specialist advice is to be taken, particularly around VAT and other taxes.

The capital programme will include financing detail and an appropriate cash flow.

Debt funding can range from short term cash flow support through to longer term funding linked to assets. Interest rates will be sought which are the best available and are required to reflect the appropriate legislation.

MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision (MRP) is the annual revenue provision that authorities which are not debt free, must make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the Mayor of taking on new borrowing. The requirement to make MRP has existed since 1990.

Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) regulations (fourth edition) 2018, the current arrangements for calculating MRP as specified in the 2007 and 2003 regulations have been superseded. The regulations place a duty on local authorities to make a MRP which is considered to be prudent, with the calculations no longer being in force in statute the four options in the statutory guidance are recommended; there is no definition of prudent provision. The responsibility is placed on the Mayor to approve the Annual MRP strategy.

The regulations require that an annual MRP strategy be adopted by the Mayor prior to the start of the financial year to which it applies. The Mayor can change the method of calculating the MRP on an annual basis in line with guidance. Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way.

For borrowing at 1 April 2008 and supported borrowing after this date, the regulatory method option 1 is to be applied. This is calculated at 4% of the total Capital Financing Requirement less Adjustment A. For unsupported borrowing after 1 April 2008, the asset life method, option 3, is applied. The MRP for each asset acquired through unsupported borrowing is calculated by taking the unsupported borrowing on the asset less the MRP already made against the asset and then divided by the remaining useful life of the asset.

For Finance Leases, MRP will also be equivalent to the capital repayment (principal) element of the annual rental payable under the lease agreement.

MRP Overpayments - Under the MRP Guidance any charges made in excess of the statutory MRP are known as Voluntary Revenue Provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up to 31st March 2024, no VRP overpayments have been made.