AGENDA ITEM: 4b

NORTHAMPTONSHIRE POLICE, FIRE AND CRIME COMMISSIONER,

NORTHAMPTONSHIRE POLICE and

NORTHAMPTONSHIRE FIRE AND RESCUE SERVICE

JOINT INDEPENDENT AUDIT COMMITTEE (JIAC)

10 March 2021

REPORT BY	Helen King, Chief Finance Officer, OPFCC & Nick Alexander Joint Head of Finance - Fire and Police
SUBJECT	Northamptonshire Commissioner Fire and Rescue Authority (NCFRA) Treasury Management Strategy 2021/22
RECOMMENDATION	To note report

1. Background

1.1 The third Treasury Management Strategy for NCFRA has been prepared alongside the Capital Programme, the Revenue Budget and Precept and is attached for member's consideration.

1.2 Treasury Management expertise is provided by LGSS for NCFRA and the Chief Finance Officer is grateful to colleagues in LGSS and the Joint Finance Team for reviewing and updating the Strategy.

1.3 NCFRA governance had transferred without any reserves, and whilst good progress is being made in building them, a prudent approach has been taken to the operational boundary and authorised limits to ensure there is sufficient headroom available to the PFCC to facilitate short term borrowing.

1.4 Given that NCFRA has only been operating for two years, work continues to build knowledge and understanding of the NCFRA cashflow as given the financial position on the revenue budget and creating a capital programme during this time, the first two years are in no way indicative of a consistent pattern of income and expenditure.

1.5 The Treasury Management Strategy for 2021/22 was considered by the PFCC at the Accountability Board on the 12 January 2021 and it is the intention to publish the strategy on the website by the 31 March 2021, after the PFCC considers the feedback from the JIAC meeting.

1.6 In line with its Terms of Reference (reviewed and updated July 2020), the JIAC undertakes a key role with regards to the Treasury Management Strategy:

"A Corporate Governance, Risk Management, Internal Control And the Regulatory Framework

To support the PFCC, Chief Constable and statutory officers in ensuring effective governance arrangements are in place and are functioning efficiently and effectively, across the whole of the Commission's and Force's activities, making any recommendations for improvement, to support the achievement of the organisations' objectives.

Specific annual activities of the Committee will include:

To be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies"

Key Elements of the Strategy

2.1 It is recognised that the Strategy is a lengthy document, however, to comply with the requirements of the CIPFA Prudential Code of Practice, the PFCC is required to set a range of prudential indicators prior to the start of the financial year. The code states that prudential indicators for Treasury Management should be considered alongside the Investment Strategy. The content of this report addresses this requirement.

2.2 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code.

2.3 The Treasury Management Strategy is based on the Capital Programme as included within the approved budget for 2021/22 and the MTFP.

2.4 As set out within the S151 Officer report to the PFCC and included within the Police, Fire and Crime Panel's consideration of the Fire precept proposals for 2021/22, concerns have been highlighted with regards to the deliverability and affordability of the Fire Capital Programme. This is mainly as a result of the significant backlog of historic investment requirements and given the tight financial envelope for NCFRA in the medium term.

2.5 The Chief Fire Officer recognises this challenge and is currently reviewing the programme and it will be considered at the April 2021 Accountability Board.

2.6 Therefore, it is anticipated that costs associated with the Capital Programme and reflected in the MTFP and Treasury Management Strategy will reduce. These will be monitored and updated in the next MTFP and Treasury management reviews.

2.7 The Strategy will be monitored during the year and a Treasury Management update considered by the JIAC and the Accountability Board later in the year.

3. Future Treasury Management Arrangements

3.1 As part of the phased transition of financial services to the Joint Police/Fire Finance team, the areas of Treasury and Cashflow management and taxation will be transferring to the in-house team from 1 July 2021.

3.3 This transition is in keeping with the timescales and direction of travel for the Joint Team which was established in June 2020 and enables consistent approaches and processes to be in place, prior to the new system arrangements for both services being implemented.

3.3 Plans for the handover are in train and progress in line with these plans will be monitored closely.

4. Recommendation

4.1 It is recommended that the JIAC consider the Strategy and provide comments for the PFCC consideration.

Northamptonshire Commissioner Fire and Rescue Authority

Treasury Management Strategy 2021-22

Introduction

CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as "the management of the organisation'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."

CIPFA Prudential Code for Capital Finance in Local Authorities

1.2 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) is a professional code of practice. Authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc. and Accounts).

1.3 The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.

1.4 Authorities are required to set and monitor a range of prudential indicators for capital finance covering affordability, prudence, and a range of treasury indicators.

Treasury Management Policy Statement

1.5 The Authority's Treasury Management Policy Statement is included in Appendix 1. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

Treasury Management Practices

1.6 The Authority's Treasury Management Practices (TMPs) will set out the manner in which the Authority will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1.7 The Authority's TMPs Schedules will cover the detail of how the Authority will apply the TMP Main Principles in carrying out its operational treasury activities. They are reviewed annually and any amendments approved by the Authority's Chief Finance Officer.

The Treasury Management Strategy

1.8 It is a requirement under the Treasury Code to produce an annual strategy report on proposed treasury management activities for the year. The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Authority's treasury management activity, including the Authority's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

1.9 The Authority's Treasury Management Strategy is prepared in the context of the key principles of the Treasury Code and incorporates:

- The Authority's capital financing and borrowing strategy for the coming year;
- Policy on borrowing in advance of need;
- Policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt;
- The Affordable Borrowing Limit;
- The Annual Investment Strategy for the coming year, including creditworthiness policies;

1.10 The strategy takes into account the impact of the Authority's Medium Term Financial Plan (MTFP), its revenue budget and capital programme, the balance sheet position and the outlook for interest rates.

1.11 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is detailed within the Authority's Corporate Governance Framework.

Current Treasury Management Position

1.12 The Authority's projected treasury portfolio position at 1st April 2021, with forward projections into future years, is summarised below. Table 1 shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the CFR).

1.13 The CFR is the total of outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need.

1.14 Any capital expenditure which has not immediately been paid for will increase the CFR. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need over each asset's life.

Table 1: Forecast Borrowing and Investment Balances

	2020-21 Forecast £'000	2021-22 Estimate £'000	2022-23 Estimate £'000	2023-24 Estimate £'000	2024-25 Estimate £'000
External Borrowing					
Borrowing at 1 April b/f	-	3,757	10,016	12,251	12,704
Net Borrowing Requirement to fund capital programme	3,757	6,288	2,461	1,039	1,563
MRP	0	(29)	(226)	(586)	(741)
(1) Borrowing at 31 March c/f	**3,757**	**10,016**	**12,251**	**12,704**	**13,526**
(2) CFR - the borrowing need	**3,757**	**10,016**	**12,251**	**12,704**	**13,526**
Funds available for Investment at 1 April b/f	1,000	1,000	1,000	1,000	1,000
Change in Funds Available for Investment	-	-	-	-	-
(3) Investments at 31 March c/f	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
(4) [1-3] Net Borrowing	**2,757**	**9,016**	**11,251**	**11,704**	**12,526**

1.15 Within the set of prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. Among these the Authority needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the CFR in the preceding years. This ensures that borrowing is not undertaken for revenue purposes except to cover short term cash flows.

1.16 The Chief Finance Officer does not envisage difficulties complying with these indicators based upon current commitments, existing plans, the proposals in this strategy, the Budget report, the Capital Programme and the Medium Term Financial Plan.

Prospects for Interest Rates

1.17 The Authority's assessment of the likely path for Bank base rate, investment market rates (The London Interbank Bid Rate - LIBID), and PWLB borrowing rates are set out below:

Table 2: Interest Rate Outlook as at 20th Nov 2020

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

1.18 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 left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

1.19 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.

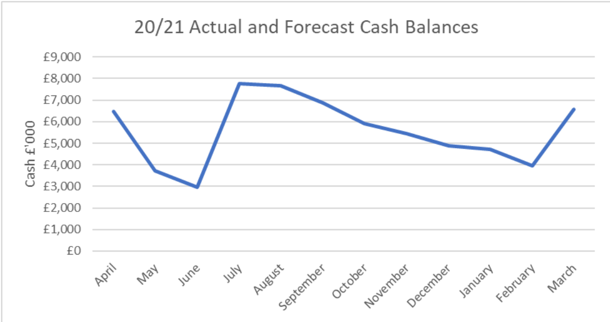
Following the consultation on PWLB borrowings, the Government published their responses in November 2020 which stated these outcomes:

- PWLB will not lend to an Authority who intend to buy investment assets primarily for yield
- Reduce the interest on borrowing on all standard and certainty rates by 100 basis point which took effect from 26th of November.

Managing daily cash balances and investing surpluses

1.20 In order that NCFRA can maximise income earned from investments, the target for the un-invested overnight balances in our current accounts is usually always lower than £15k. However, when there is an emergency, we are unable to place an investment or another event, we will maintain the balance in the Natwest account in order to safeguard funds.

1.21 At any one time, NCFRA has between £1m and £10m (depending on the cash flow of both revenue and capital financing) available to invest. This represents income received in advance of expenditure plus balances and reserves. The average cash available to or forecast to invest throughout 20/21 is as follows:



As with most local authorities with a high proportion of employee to Supplies and Services expenditure NCFRA's cash flow is fairly consistent month on month and therefore investable cash balances only significantly deviate when single payments (such as internally funded capital purchases) or large annual income receipts are forecast.

The decline and increase in cash balances represented above occurs with the:

- Receipt of Fire Fighter Pension Fund (FFPF) grant within July;
- The costs associated with the FFPF being expended throughout the financial year; or
- The receipt of one off grants, such as the Covid-19 grant and it's positive impact in the early part of the financial year or very short term increases in cash following approval to borrow to fund Capital expenditure.

Borrowing Strategy

1.22 The overarching objectives for the Authority's borrowing strategy are as follows:

- To manage the Authority's debt maturity profile; this is achieved by monitoring short and long term cash flow forecasts in tandem with balance sheet analysis;
- To maintain a view on current and possible future interest rate movements, and to plan borrowing accordingly; this is achieved by monitoring of economic commentary to undertake sensitivity analysis;
- To monitor and review the balance between fixed and variable rate loans against the background of interest rates and the Prudential Indicators; this is achieved by monitoring of economic commentary to undertake sensitivity analysis;

1.23 The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), will not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure.

1.24 Against this background and the risks within the economic forecast, caution will be adopted with the 2021-22 treasury operations. The LGSS Treasury Team will monitor interest rates in financial markets and regularly brief the Chief Finance Officer so the Authority may adopt a pragmatic approach to changing circumstances. For example:

- If it was felt that there was a significant risk of a sharp FALL of 25% or more in long and short term rates (e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings may be postponed and potential rescheduling from fixed rate funding into short term borrowing considered (where appropriate);
- If it was felt that there was a significant risk of a much sharper RISE of 25% or more in long and short term rates than that currently forecast (e.g. arising from an acceleration in the start date and rate of increase in central rates in the USA and UK) then the portfolio position will be re-appraised. This may include drawing fixed rate funding whilst interest rates are lower than they are projected to be in the next few years.

Prudential & Treasury Indicators

1.25 There is a requirement under the Local Government Act 2003 for Authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The Prudential Code was recently updated in 2018.

1.26 A full set of Prudential Indicators and borrowing limits are shown in Appendix 2.

Policy on Borrowing in Advance of Need

The Authority's policy is to keep cash balances as low as possible and not to borrow in advance of need for capital purposes. However, this will be reviewed should it be prudent to do so.

Debt Rescheduling

1.27 The Authority is currently debt-free and so does not hold external borrowing to consider rescheduling. If this situation were to change, the reasons for any rescheduling to take place may include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

1.28 Any rescheduling activity decision will be made by the Chief Finance Officer and reported in the next Treasury Management report following its action.

Minimum Revenue Provision

1.29 The Authority is required to repay annually an element of its outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (the CFR). This is achieved through a revenue charge known as the minimum revenue provision – MRP. It is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

1.30 MHCLG Regulations have been issued which requires the Authority to approve an MRP Statement in advance of each year. A variety of options are provided so long as there is a prudent provision. The Authority is recommended to approve the MRP Policy in Appendix 3 which sets out how MRP will be charged against particular asset types or other forms of capital expenditure.

Investment Strategy

1.31 Government guidance on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

1.32 The Authority's general policy objective is to invest its surplus funds prudently. As such the Authority's investment priorities, in priority order, are:

- Security of the invested capital;
- Liquidity of the invested capital; and
- Yield received from the investment.

1.33 The Authority's Investment Strategy is shown in Appendix 4.

Risk Analysis and Forecast Sensitivity

Risk Management

1.34 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Authority's approved Treasury Management Practices.

1.35 The TMP Schedules set out the ways in which the Authority seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk). Officers will monitor these risks closely.

Sensitivity of the Forecast

1.36 The sensitivity of the forecast is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the Authority has no control.

1.37 Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the Authority's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP Schedules and the treasury strategy, and in line with the Authority's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported in the next available Treasury Management report.

Reporting Arrangements

Capital Strategy

1.38 CIPFA's revised 2017 Prudential and Treasury Management Codes requires all local authorities, for 2021-22, to prepare an additional 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;
- the implications for future financial sustainability;

1.39 The aim of this capital strategy is to ensure a full understanding of the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

1.40 The Authority is required to report, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a) **Treasury Management Strategy and Prudential and treasury indicators (this report)** - The first 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 and 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** – This is primarily a progress report and updates on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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

Treasury Management Budget

1.41 The table below provides a breakdown of the treasury management budget.

Table 3: Treasury Management Budget

Description	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000
Interest payable on borrowing	69	183	243	298
MRP	Nil	29	226	586
Total	**69**	**212**	**469**	**884**

MRP charges have been calculated in line with the Authority's MRP policy at Appendix 3.

Budget estimates will be revised during the year reflect the further development of capital programme plans and other relevant strategies.

Policy on the use of External Service Providers

1.42 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. The Authority also recognises there is value in employing an external provider of treasury management services in order to acquire access to specialist skills and advice to support the treasury management function.

The contract with LGSS includes their use of Treasury Adviser Link, which is the same adviser used in Policing. The Chief Finance Officer will determine the use of external Treasury Management advisors for NCFRA when the services transfer in full to the Joint Finance team.

Future Developments.

1.43 Public bodies are having to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to treasury management activities. The Government has already introduced new statutory powers, and regulatory agencies such as CIPFA are introducing policy changes, which will have an impact on treasury management approaches in the future. Examples of such changes are:

Localism Act

1.44 A key element of the Act is the "General Power of Competence": "A local authority has power to do anything that individuals generally may do." The Act opens up the possibility that a local authority can use derivatives as part of their treasury management operations. The Authority has no plans to use financial derivatives under the powers contained within this Act.

Loans to Third Parties

1.45 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure. This will usually be to support local economic development and may be funded by external borrowing.

1.46 The Authority has not lent any funds to third parties and has no plans to do so in the immediate future.

Proposals to amend the CIPFA Treasury Management and Prudential Codes

CIPFA conducted a review of the Treasury Management Code of Practice and the Prudential Code. This review particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management. The Capital Strategy will cover non-treasury investments to deal with such purchases, their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake these purchases.

Impact of International Financial Reporting Standard 9 (IFRS 9)

1.47 All public bodies are required to adopt the principles of accounting standard IFRS 9 from 1st April 2018. A key element of this new standard a requirement to set aside financial provision within revenue budgets for losses on financial assets based on potential expected losses (i.e. the likelihood of loss across the asset lifetime). This however is not expected to have a material impact upon the traditional treasury management investments the Authority will undertake.

Training

1.48 The Authority needs to ensure appropriate training and knowledge in relation to treasury management activities, for officers engaged in treasury activity and those with oversight responsibilities charged with governance of the treasury management function. Treasury management training will be considered and delivered as required to facilitate best practices, informed decision making and challenge processes.

List of Appendices

Appendix 1: Treasury Management Policy Statement
Appendix 2: Prudential & Treasury Indicators
Appendix 3: Minimum Revenue Provision (MRP) Policy Statement
Appendix 4: Annual Investment Strategy

APPENDIX 1

Treasury Management Policy Statement

Northamptonshire Commissioner Fire and Rescue Authority defines its treasury management activities as:

- 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.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore 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.

Prudential and Treasury Indicators

The Capital Prudential Indicators

1.1 The Authority's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

1.2 This prudential indicator shows the Authority's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. The table below summarises the net borrowing funding need of the capital expenditure plans. Those detailed capital expenditure plans are set out in the Capital Strategy.

Capital Expenditure	2020-21 Forecast £'000	2021-22 Estimate £'000	2022-23 Estimate £'000	2023-24 Estimate £'000	2024-25 Estimate £'000
Net financing need for the year	3,757	10,016	12,251	12,704	13,526

The Authority's Borrowing Need (the Capital Financing Requirement)

1.3 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

	2020-21 Forecast £'000	2021-22 Estimate £'000	2022-23 Estimate £'000	2023-24 Estimate £'000	2024-25 Estimate £'000
Capital Financing Requirement					
CFR	3,757	10,016	12,251	12,704	13,526
Movement in CFR	**3,757**	**6,259**	**2,235**	**453**	**822**

Movement in CFR represented by:					
Net financing need for the year (see Table above)	3,757	6,288	2,461	1,039	1,563
Less: MRP	0	(29)	(226)	(586)	(741)
Movement in CFR	**3,757**	**6,259**	**2,235**	**453**	**822**

The Operational Boundary

1.4 This is the limit beyond which external borrowing is not normally expected to exceed. All things being equal, this could be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing undertaken as impacted by the level of current and future cash resources and the shape of the interest rate yield curve.

Operational Boundary	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Total Borrowing	5,640	14,960	18,290	18,920	20,090

1.5 The rising trend of the Operational Boundary reflects that of the CFR above. The level set is at a 50% margin above the CFR so that if borrowing was taken to the CFR level, sufficient headroom exists for further short-term borrowing should it be required for in year cashflow purposes.

The Authorised Limit for external borrowing

1.6 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised in line with the Authority's Corporate Governance Framework. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

Authorised Limit	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Total Borrowing	6,760	17,960	21,940	22,700	24,110

1.7 The rising trend of the Authorised Limit reflects that of the CFR and subsequently the Operational Boundary. The level set is at a 20% margin above the Operational Boundary, providing additional headroom for further short-term borrowing should it be required for cashflow purposes, before the legal limit is reached.

2 Treasury Management Limits on Activity

2.1 There are four debt and investment related treasury activity limits. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs or improve performance. The indicators for debt are:

- **Upper limits on variable interest rate exposure;** this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limits on fixed interest rate exposure;** this is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **Maturity structure of borrowing;** these gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

2.2 The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e. negative) depending on the component parts of the formula. The formula is shown below:

Fixed rate calculation:

$$\frac{\text{(Fixed rate borrowing – Fixed rate investments)}}{\text{Total borrowing – Total investments}}$$

Variable rate calculation:

$$\frac{\text{(Variable rate borrowing – variable rate investments)}}{\text{Total borrowing – Total investments}}$$

	2021-22	2022-23	2023-24	2024-25
Interest rate Exposures				
	Upper	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%	50%

2.3 The indicators above therefore allow for a maximum 100% of borrowing to be undertaken on a fixed interest rate basis, but a maximum of 50% on a variable interest rate basis. This allows flexibility to utilise variable rate instruments for up to half the Authority's borrowing requirement where prudent to do so, whilst limiting the variable interest rate risk against the Authority's revenue budget.

2.4 The maturity structure of borrowing indicator represents the borrowing falling due in each period expressed as a percentage of total borrowing. These gross limits are set to manage the Authority's exposure to sums falling due for refinancing or repayment.

<table>
<tr><th colspan="3">Maturity Structure of borrowing</th></tr>
<tr><td></td><td>Lower</td><td>Upper</td></tr>
<tr><td>Under 12 months</td><td rowspan="9">0%</td><td>80%</td></tr>
<tr><td>12 months to 2 years</td><td>50%</td></tr>
<tr><td>2 years to 5 years</td><td>50%</td></tr>
<tr><td>5 years to 10 years</td><td>50%</td></tr>
<tr><td>10 years to 20 years</td><td rowspan="5">100%</td></tr>
<tr><td>20 years to 30 years</td></tr>
<tr><td>30 years to 40 years</td></tr>
<tr><td>40 years to 50 years</td></tr>
<tr><td>50 years and above</td></tr>
</table>

2.5 The Authority does not expect to hold any investments that exceed 365 days but may do so in the future if it holds sufficient cash balances and such investments assist in the prudent management of the Authority's financial affairs.

Affordability Prudential Indicator

2.6 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework is an indicator required to assess the affordability of the capital investment plans. This provides an indication of the impact of the capital investment plans on the Authority's overall finances.

2.7 The Authority is asked to approve the actual and estimates 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 net revenue stream. The estimates of financing costs include current commitments.

2.8 This is calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers.

	Actual and estimates of financing costs to net revenue stream				
	2020-21 %	2021-22 %	2022-23 %	2023-24 %	2024-25 %
Financing costs to net revenue stream	0.02	0.69	0.83	0.84	0.87

APPENDIX 3

Minimum Revenue Provision Policy Statement

1 Policy Statement

1.1 The Authority is required to repay an element of the accumulated General Fund capital spend each year (Capital Financing Requirement - CFR) through a revenue charge (Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required.

1.2 The Ministry for Housing, Communities and Local Government (MHCLG) have issued regulations that requires the Authority to approve an MRP Statement in advance of each year. A variety of options are provided in the guidance with the underlying principle that a prudent provision is made.

<u>Accumulated Debt Liability</u>

1.3 For unsupported capital expenditure, MRP will be charged from the year after the assets funded have become operational and spread over the estimated useful life of the assets using an equal annual instalment method.

1.4 Estimated useful life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

1.5 As some types of capital expenditure incurred are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure with substantially different useful economic lives.

<u>Non-operational assets</u>

1.6 The Authority will not charge MRP on non-operational assets. MRP will only be charged in the financial year following the asset becoming operational. This policy will be reviewed annually.

<u>Use of Capital Receipts</u>

1.7 The Authority may use capital receipts in the year in which they are received to reduce the CFR and to offset the MRP charge for that year. Any unapplied capital receipts will be available in future years and will be applied in a prudent manner.

APPENDIX 4

Annual Investment Strategy

1 Investment Policy

1.1 MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

1.2 The Authority’s appetite for risk must be clearly identified in its strategy report. The Authority affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Authority will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

1.3 Responsibility for risk management and control lies within the Authority and cannot be delegated to an outside organisation.

2 Creditworthiness Policy

2.1 The Authority’s counterparty and credit risk management policies are set out below. These, taken together, form the fundamental parameters of the Authority’s Investment Strategy.

2.2 The Authority defines high credit quality in terms of investment counterparties as those organisations that are:

- Minimum strong grade long term credit rating (equivalent to A- / A3 / A from Fitch, Moody’s and Standard and Poor’s)
- UK banking or other financial institutions, or are;
- UK national or local government bodies, or are;
- Countries with a sovereign rating of -AA or above, or are;
- Triple-A rated Money Market funds.

2.3 The Authority will assess the credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties will be supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS – a traded insurance policy market against default risk) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

2.4 This approach of combining credit ratings, credit Watches and credit Outlooks along with an overlay of CDS spreads will be used to determine duration for investment. The Authority will apply these duration limits to its investments at all times, unless otherwise approved by the Chief Finance Officer.

2.5 Credit ratings will be monitored on a regular basis. If a rating downgrade results in the counterparty or investment scheme no longer meeting the Authority’s minimum criteria, its further use as a new investment will be withdrawn immediately. In addition, extreme market movements (which may be an early indicator of financial distress) may result in the removal of a counterparty from new investment.

2.6 The Authority will also use market data, financial press and information on any external support for banks to help support its decision making process.

2.7 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and so to enable the effective management of risk in relation to its investments, the Chief Finance Officer shall have the discretion during the year to:

- Strengthen or relax restrictions on counterparty selection;
- Adjust exposure and duration limits;

2.8 Where this discretionary authority is exercised, records will be maintained and details reported in the next available Treasury Management update report.

3 Banking Services

3.1 The Authority uses NatWest to provides banking services. The Authority may continue to use its own bankers for short term liquidity requirements if the credit rating of the institution falls below the minimum credit criteria set out in this report, monitored daily. A pragmatic approach will be adopted and rating changes monitored closely.

4 Investment Position and Use of Authority's Resources

4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

4.2 Investments will be made with reference to the core balances and cash flow requirements and the outlook for interest rates.

4.3 The Authority will primarily utilise business reserve accounts, notice accounts, low-volatility money market funds (known as LVNAV class) and short-dated deposits. This strategy will be reviewed and developed in future years as the Authority establishes itself.

5 Specified Investments

5.1 The Authority assesses that an investment is a specified investment if all of the following criteria apply:

- The investment is **denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling**.
- The investment is **not a long term investment (i.e. up to 1 year)**.
- The making of the investment is **not defined as capital expenditure** by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended].
- The investment is **made with a body or in an investment scheme of high credit quality** (see below) or with one of the following public-sector bodies:
  - The United Kingdom Government.

- A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland.
- High credit quality is defined as a minimum credit rating as outlined in this strategy.

Instrument	Minimum 'High' Credit Criteria	Maximum Amount
Debt Management Agency Deposit Facility (DMADF)	N/a	No maximum
Call Accounts with the Authority's bankers	N/a	No maximum
Certificate of Deposits	A / A3 / A	£2m per individual/group in total
Term Deposits - Banks and Building Societies	A / A3 / A	
Term Deposits - Local Authorities and Housing Associations	Considered on an individual basis	
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds (CNAV, LVNAV or VNAV)	AAA MMF rating	£2m per individual/group in total

5.2 The Authority may enter into forward agreements up to 1 months in advance of the investment commencing. If forward agreements are made, the forward period plus the deal period should not exceed the 1 year to be classified as a specified investment.

5.3 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is compounded by the counterparty to the principal investment amount. In such instances the interest amounts will be withdrawn as soon as reasonably practicable.

6 Non-specified investments

6.1 Non-specified investments are defined as those not meeting the specified investment criteria above (including investments exceeding 1 year).

6.2 At this point in time, the Authority has no plans to invest in any Non-specified investments.

7 Investments Defined as Capital Expenditure

7.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as 'non-specified investments'.

7.2 Investments in "money market funds" which are collective investment schemes and bonds issued by "multilateral development banks" – both defined in SI 2004 No 534 – will not be treated as capital expenditure.

7.3 A loan, grant or financial assistance provided by this Authority to another body will be treated as capital expenditure if the Authority would define the other bodies use of those funds as capital had it undertaken the expenditure itself.

8 Provisions for Credit Related Losses

8.1 If any of the Authority's investments appear at risk of loss due to default (i.e. this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Authority will make revenue provision of an appropriate amount.

9 End of Year Investment Report

9.1 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

10 Governance Arrangements

10.1 By approving this strategy, the Authority is setting the framework from which treasury activity will be conducted and reported.

10.2 The Chief Finance Officer has delegated powers through approval of this strategy to take the most appropriate form of borrowing from approved sources, and to make the most appropriate form of investments in approved instruments. Paragraph 2.7 above delegates powers to the Chief Finance Officer giving discretion during the year to lift or increase the restrictions on the counterparty lending list and/or to adjust the associated lending limits on values and durations should it become necessary, to enable the effective management of risk in relation to its investments.

10.3 The Chief Finance Officer may delegate powers to borrow and invest within the confines of this strategy to members of staff and the LGSS Treasury team, who will provide regular updates on treasury activity.

10.4 Any other amendments to this strategy must be approved in line with the Authority's Corporate Governance Framework.