ANNEX I

SOUTH YORKSHIRE FIRE AND RESCUE AUTHORITY

TREASURY MANAGEMENT STRATEGY AND POLICY STATEMENT 2024/25

INDEX

1 EXECUTIVE SUMMARY

BACKGROUND

1.1 This document has been prepared in accordance with the Local Government Act 2003, which stipulates that local authorities must 'have regard to' the following guidance:

- The **Prudential Code** (CIPFA);
- The **Treasury Management Code** (CIPFA);
- **Statutory Guidance on Minimum Revenue Provision** (DLUHC), and
- **Statutory Guidance on Local Authority Investments** (DLUHC).

1.2 In line with the recommendations of these codes, the Treasury Management Strategy sets out the following each year for approval by the Fire Authority:

The Treasury Management Policy Statement The Authority's overall policies, practices and objectives in relation to treasury management
The Authority's Capital Expenditure Plans The Authority's indicative capital programme over the next few years
The MRP Policy Statement How residual capital expenditure will be charged to revenue over time
The Authority's Borrowing Strategy How its ongoing borrowing requirement will be managed, with regard to interest rate and refinancing risk
The Annual Investment Strategy How any surplus cash will be managed, with regard to the principles of Security, Liquidity and Yield
The Authority's Prudential and Treasury Indicators The limits and indicators designed to help monitor and control treasury management risk

1.3 CIPFA published updated Treasury Management and Prudential Codes in December 2021 and full implementation of the reporting changes has been required by local authorities from 2023/24. To comply with the code changes, the Authority must have regard to these Codes of Practice when preparing the following Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year which are taken to Fire Authority for approval. The updates and changes are summarised as follows:

- The Authority's risk appetite and our governance processes for managing risk are defined;
- The adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement (CFR);

- No borrowing is undertaken to finance capital expenditure to invest primarily for commercial return;
- Increases in CFR and borrowing are undertaken solely for purposes directly related to the functions of the Authority;
- The Authority's capital plans and investment plans are affordable and proportionate, and all borrowing is within prudent and sustainable levels;
- The inclusion of a high-level summary of the Authority's investment policy in relation to environmental, social and governance aspects;
- The risks and rewards of significant investments are assessed over the long term (20 to 30 years);
- Treasury Management decisions are in accordance with good professional practice;
- A review of the knowledge and skills register for officers and members involved in the treasury management function. Ensuring that the Authority has access to expertise in all areas of investment and capital expenditure, and to involve members in making informed decisions.

1.4 In addition, the DLUHC are planning to provide further clarity in relation to the Minimum Revenue Provision regulations and guidance so that all local authorities understand the need and value in ensuring revenue is set aside annually in respect of their Capital Financing Requirement. Confirmation is yet to be received as to when these changes will take effect.

1.5 If required, the Strategy will be revised to reflect any changes to legislation outlined in the paragraphs above.

OBJECTIVES

1.6 The objectives of the Treasury Management Strategy are to:

- Ensure the Authority's capital expenditure plans are prudent, affordable and sustainable over the longer-term;
- Ensure that sufficient cash is available when needed to meet the Authority's spending commitments;
- Manage the Authority's exposure to interest rate and refinancing risk whilst maximising value for money, and
- Manage the investment of temporary surplus cash in a way that preserves the capital invested.

THE AUTHORITY'S BORROWING STRATEGY

1.7 Within the context of increasing economic uncertainty and interest rate volatility, the proposed strategy is to:

- **Maintain an appropriate proportion of fixed rate borrowing** in order to limit the Authority's exposure to interest rate risk (proposed targets in section 3);

- **Maintain a balanced maturity profile on long and short-term borrowing** to limit the Authority's exposure to refinancing risk (proposed limits in Appendix C), and
- **Maintain an appropriate level of internal borrowing** in order to reduce the Authority's financing costs.

THE ANNUAL INVESTMENT STRATEGY

1.8 In order to safely manage the Authority's temporary surplus cash, the proposed strategy is to:

- **Invest in only secure products and counterparties** in order to minimise the risk of loss (proposed limits in section 4);
- **Maintain an appropriate balance of liquid funds** to ensure that sufficient cash is available when needed, and
- **Within this context, seek to optimise performance** in terms of yield.

TREASURY MANAGEMENT REPORTING

1.9 The Authority is currently required to receive and approve the following treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important 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 Annual Investment Strategy (the parameters on how investments are to be managed).

b. **Quarterly treasury management reports** – These are primarily progress reports and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury 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.

TRAINING

1.10 The CIPFA Treasury Management Code requires that staff and members with responsibility for treasury management receive adequate training. The Authority carries out the following to monitor and review knowledge and skills:

- Provide training sessions for new Authority members together with periodic training sessions at Audit and Governance Committee.
- Keep the CIPFA Treasury Management Skills Assessment up to date to identify any gaps in knowledge, plus regular communication with officers and Authority members to encourage them to highlight training needs on an ongoing basis.
- The training needs of treasury management officers are periodically reviewed through the Personal Development Review process.
- A formal record of the training received by officers central to the treasury function is maintained within the Treasury Management Practices.

2 CAPITAL EXPENDITURE PLANS

2.1 The Authority's capital expenditure plans are a key driver of its treasury management activities. This section covers a range of prudential indicators designed both to inform members of future activity and to assess whether those plans are prudent, affordable and sustainable over the longer term and reflect the framework as set out in CIPFA's Prudential Code. The full suite of indicators can be found in Appendix C.

Estimates of Capital Expenditure

2.2 This indicator summarises the capital expenditure plans set out in the Authority's Capital Investment Strategy. These plans are funded from a variety of sources including £34.9M from borrowing (see Appendix C for further details).

Table 1 - Estimates of Capital Expenditure

	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)	Total (£M)
Indicative Capital Programme	8.931	8.962	8.939	8.510	**35.342**
Total Capital Expenditure	**8.931**	**8.962**	**8.939**	**8.510**	**35.342**
Funded from Borrowing	8.819	8.829	8.839	8.410	**34.897**
Funded from Other Resources	0.112	0.133	0.100	0.100	**0.445**

Estimates of Capital Financing Requirement (CFR)

2.3 This indicator sets out the Authority's CFR, which reflects the capital expenditure (both historic and planned) being funded from borrowing or other long-term liabilities. This includes the £34.9M identified in paragraph 2.2:

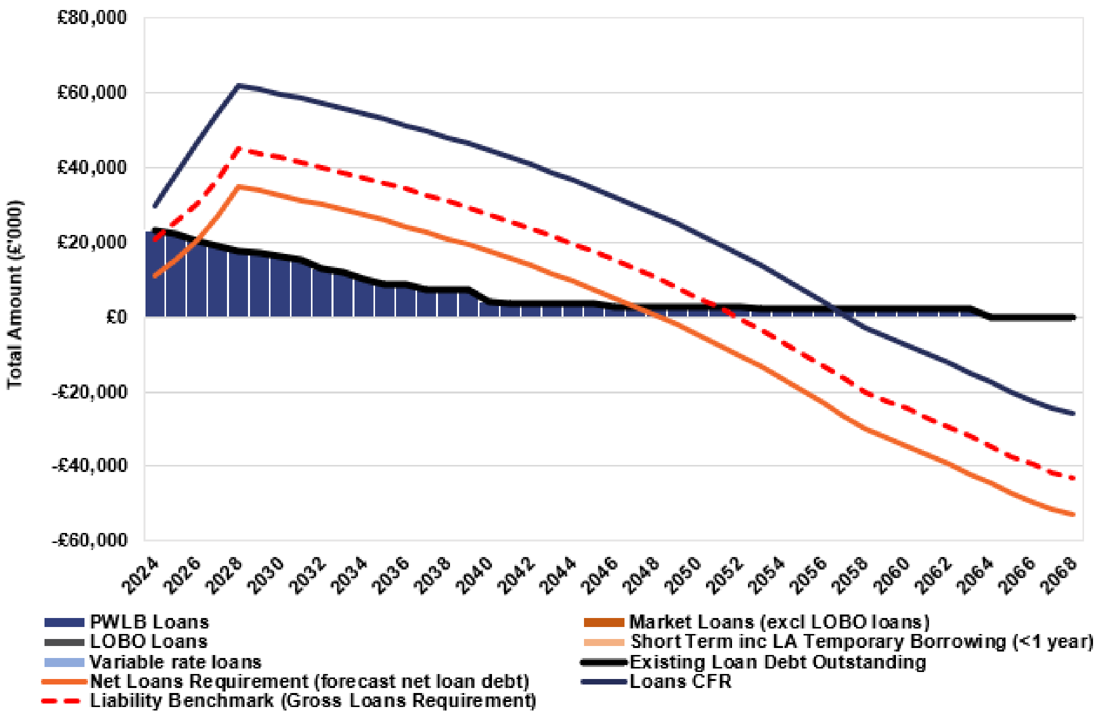
Table 2 - Estimates of Capital Financing Requirement

	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Estimated Closing CFR	39.940	48.216	56.386	64.008

2.4 New expenditure aside, the CFR will reduce over time via a statutory annual charge to the revenue account, known as the Minimum Revenue Provision (MRP). The Authority's MRP policy is included in Appendix B.

Liability Benchmark

2.5 The Liability Benchmark (LB) Prudential Indicator has been developed by CIPFA to provide a longer-term view of a local authority's debt position. The Authority is required to estimate and measure the LB and report this to members within the quarterly treasury management updates. The LB is effectively the Net Borrowing Requirement of the Authority plus a liquidity allowance.



2.6 The graph above shows the Authority's Liability Benchmark as at 2023/24 which includes the following four balances:

- **Existing loan debt outstanding (blue stacked bars):** the Authority's existing loans that are still outstanding in future years.
- **Loans CFR (blue line):** the loans CFR projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement (orange line):** the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future based on approved prudential borrowing, planned MRP and any other major cash flow forecasts.
- **Liability benchmark (broken red line)**: the net loans requirement plus a short-term liquidity allowance.

2.7 It should be noted that **only approved prudential borrowing** (£34.9M as detailed in table 1) is included in the above calculations. In practice this means that the Loans CFR will peak after four years, as is demonstrated in the graph above. This creates a slight anaomoly in the model given that all other inputs are projected forward to 40 years+.

2.8 CIPFA recommends that the optimum position for external borrowing should be at the level of the LB (i.e. all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the LB, then this indicates a borrowing requirement, thus identifying where the Authority is exposed to interest rate, liquidity and refinancing risks. Conversely, where external loans exceed the LB then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment, thus exposing the Authority to credit and reinvestment risks and a potential cost of carry.

2.9 The latest graph shown at paragraph 2.5 shows that using current forecasts, the Authority’s external borrowing falls below the level of the liability benchmark indicating a future borrowing requirement. Further details on the borrowing strategy and plans for managing this position are provided within section 3.

3 BORROWING STRATEGY

3.1 The capital expenditure plans set out in section 2 provide details of the capital activity across the Authority and more detailed information can be found within the Capital Investment Strategy 2024/25.

3.2 The treasury management function will ensure that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the plans included in the Capital Strategy. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

3.3 The Authority's general policy objective is to ensure its level of debt is prudent, affordable and sustainable over the longer term. This requires the treasury function to keep financing costs to a minimum whilst addressing the key associated risks: interest rate risk and refinancing risk.

Gross Borrowing and the Capital Financing Requirement

3.4 This indicator compares the Authority's expected borrowing position to its underlying borrowing need (referred to as the Borrowing CFR), to identify the extent to which the Authority is under or over-borrowed.

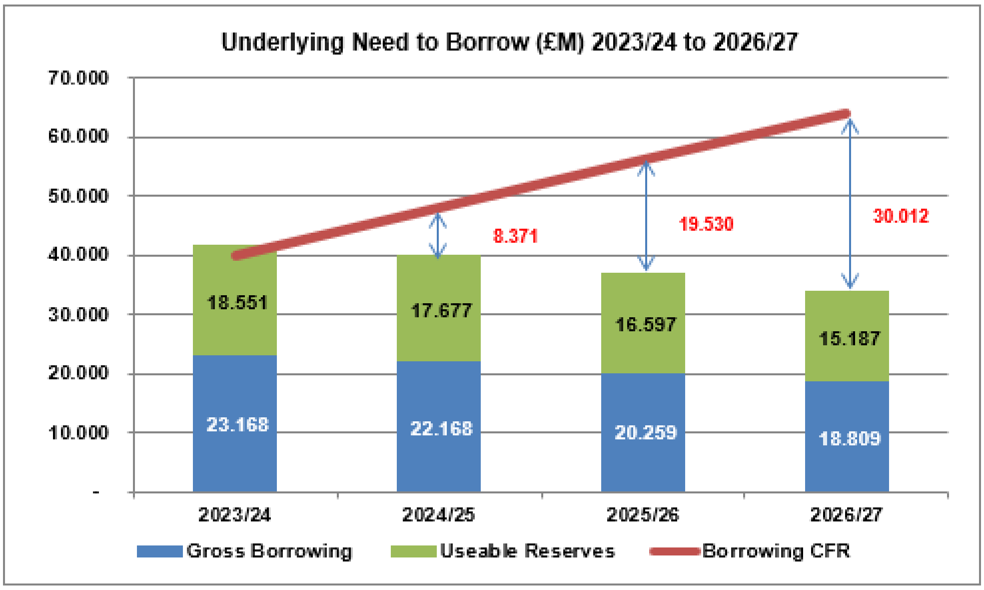
3.5 As outlined below, the Authority is expected to be significantly under-borrowed throughout the period to 2026/27. This position is supported by the Authority's usable reserves which largely represent the resources set aside for investment in future years. By utilising the cash supporting these resources temporarily, the Authority has the option to defer long-term borrowing until the related spending commitments occur (also referred to as internal borrowing).

3.6 Whilst this is a cost-effective position which can help to reduce investment counterparty risk, it is one that needs to be actively monitored and managed considering the Authority's planned capital investment, particularly in the current economic climate.

Table 3 - Gross Borrowing and the Capital Financing Requirement

	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Closing CFR	39.940	48.216	56.386	64.008
Gross Borrowing	(23.168)	(22.168)	(20.259)	(18.809)
Under-Borrowed Position	**16.772**	**26.048**	**36.127**	**45.199**
Support from Usable Reserves	(18.551)	(17.677)	(16.597)	(15.187)
External Borrowing Requirement	**(1.779)**	**8.371**	**19.530**	**30.012**

3.7 As illustrated by the chart below, the underlying need to borrow for capital purposes (represented by the blue arrows) based on current forecasts is estimated at £30M over the period:



Interest Rate Risk

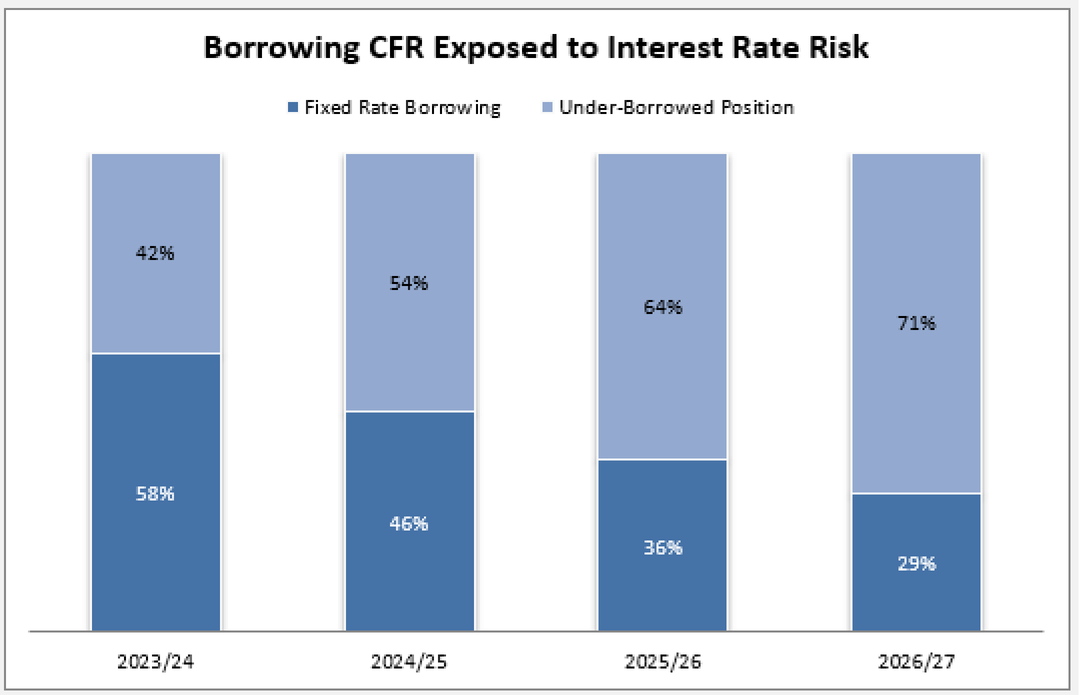
3.8 Interest rates are a key driver of treasury management activities and are closely monitored by officers. The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. As shown below, the latest forecast (as at 7th November 2023) is that the Bank Rate has reached its peak of 5.25%, with a first cut to 5% in Q3 2024 to be followed by further rate cuts through 2024 and 2025. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Table 4 - Latest Interest Rate Projections (provided by Link Group as at 07.11.23)

	Latest	**Mar-24**	**Sep-24**	**Mar-25**	**Sep-25**	**Mar-26**
UK Bank Rate	5.25%	5.25%	5.00%	4.00%	3.25%	3.00%
PWLB Certainty Rate (50 Years)	5.30%	5.10%	4.70%	4.30%	4.00%	3.90%

3.9 Interest rate risk is the risk of an adverse movement in interest rates which leads to a rise in borrowing costs or lost opportunity costs. The Authority measures this risk against its temporary and variable rate borrowing and any requirement which has yet to be financed (i.e. its under-borrowed position).

3.10 As shown below, it is anticipated that 42% of the Authority's borrowing requirement will be exposed to interest rate risk at the end of 2023/24. Based on current capital programme spend forecasts, this could rise to 71% by the end of 2026/27, should no further fixed rate borrowing be undertaken:



3.11 In previous years, the strategy has been to maintain a 70% fixed rate borrowing target to create cost certainty and limit interest rate risk. However, as borrowing costs have risen over the last 18 months (to their highest level since 2008), it has not been considered cost-effective to enter into expensive long-term loans. The Authority has used temporary reserves and balances in lieu of external borrowing.

3.12 If the Authority was to maintain the 70% fixed rate borrowing target, it would require in the region of £26.0M of fixed rate debt over the period to 2026/27. Borrowing rates are forecast to begin to fall over the next 2 years, shown in table 4 at paragraph 3.8, and the recommended strategy is to hold off long-term borrowing until this time.

3.13 Flexibility in terms of the interest rate exposure target is considered the most prudent approach for the Authority in light of the current forecasts and the wider economic climate. Interest rates in financial markets will continue to be closely monitored by officers to manage risks and caution will be adopted with the 2024/25 treasury operations. The Treasurer will adopt a pragmatic approach to changing circumstances:

- If it was felt there was a significant risk of a sharp FALL in borrowing rates, then long-term fixed rate borrowing will be postponed; or

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

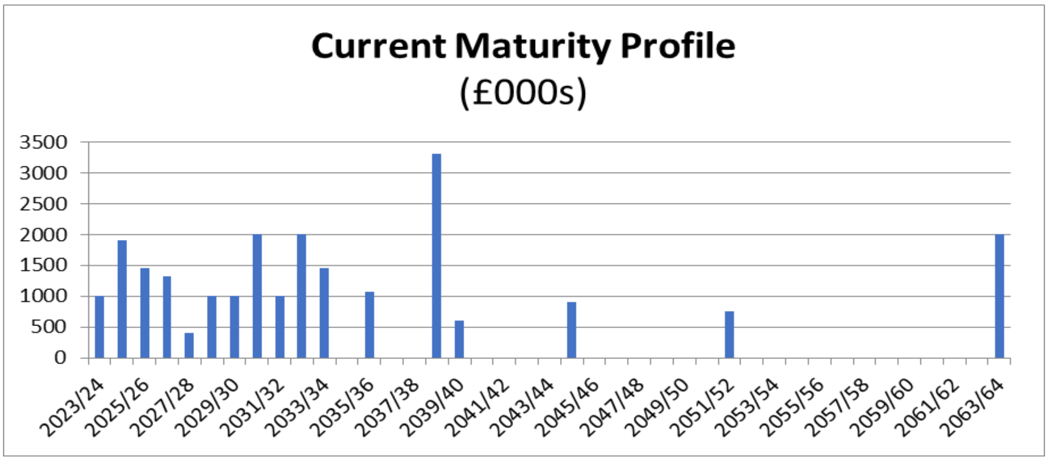
3.14 Within the above approach the following options are available to address the borrowing requirement:

- **PWLB borrowing** - the Authority has access to long-term PWLB funding at the certainty rate (providing loans at 0.2% below the usual rate). The latest forecasts (at table 4) show a gradual decline in PWLB rates during the forecast period to March 2026. There is likely to be unpredictable volatility during this period, as detailed previously in the report, and officers will continue to monitor PWLB closely to take advantage of the best possible rates.
- **Deferred loans** - these would allow the Authority to borrow from financial institutions such as banks and pension funds at a fixed rate and draw down the cash up to two years in advance. Whilst they may no longer be cheaper than the PWLB, deferred loans help to protect the Authority from interest rate risk without the additional cost of carry and credit risk. Lenders tend to have a minimum size of £10M however officers will continue to explore any potential opportunities.
- **Local authority loans** - the Authority could look to secure an element of its borrowing requirement with some medium-term funds from other local authorities, which would help to spread refinancing risk typically at a cheaper rate than the PWLB. This would be carried out in small tranches to minimise the cost of carry and mitigate credit risk.
- **Internal Borrowing** - while borrowing rates remain elevated, the Authority could continue with the temporary use of internal cash resources (e.g. earmarked reserves or grants received in advance of expenditure) in lieu of external borrowing. This is a temporary measure and should be considered in line with the reserves strategy and capital spend projections over the planning period.

Refinancing Risk

3.15 This is risk of refinancing debt on unfavourable terms, due to either a lack of availability of replacement financing or an increase in interest rates. The Authority measures this risk against the maturity profile on long and short-term borrowing.

3.16 To protect the Authority from refinancing risk, officers will operate within the maturity limits set out in Appendix C. As shown overleaf the Authority has a balanced maturity profile which is currently well within this limit:



3.17 The recommendation is to borrow in small tranches to spread refinancing risk and to allow officers to invest the cash safely whilst required to meet the Authority's spending commitments.

4 ANNUAL INVESTMENT STRATEGY

CONTEXT

4.1 The Authority's general policy objective is to invest its surplus funds prudently, which involves managing a number of risks as outlined later in this section. The Authority's investment priorities (in order) are as follows:

- the **security of capital**;
- the **liquidity of investments**, and
- **optimum yield commensurate with the above**

4.2 The borrowing of monies purely to invest or on-lend and make a return is considered unlawful. As such the Authority will not engage in such activity and as per table 3 (paragraph 3.6) will keep external borrowing beneath the CFR.

STRATEGY

4.3 The Treasury Management function manages cash flow generated balances and ensures the Authority has the ability to meet spending commitments as they fall due. Within this context, the Authority's investment strategy will be to:

- **Invest any temporary surplus cash in secure products and counterparties** in order to minimise the risk of loss;
- **Maintain an appropriate balance of liquid funds** to ensure that sufficient cash is available when needed; and
- **Within this context, seek to optimise performance** in terms of yield.

4.4 The guidance from DLUHC and CIPFA places a high priority on the management of risk. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the revenue budget.

4.5 The Authority has a low risk appetite in terms of the investment of surplus cash balances and has adopted a prudent approach to managing investment risk. Further details of the associated risks are provided below:

Credit and Counterparty Risk (Security)

4.6 This is the risk of a third party being unable to meet its contractual obligations to the Authority, which put simply is the risk of default on any principal or interest payable. This would clearly have a detrimental impact on the Authority's resources.

4.7 In order to mitigate this risk, the Authority maintains a list of approved counterparties and investment limits based on the creditworthiness service provided by Link Asset Services (further details are available on request). This approach combines the credit ratings assigned by the three main rating agencies (Fitch, Moody's and Standard and Poor's) with a range of market factors to provide a suggested duration for investments, including:

- Credit 'watches' and 'outlooks' from the main rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings, and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

4.8 Members are asked to approve the investment counterparties and limits below:

Institution	Minimum Long-Term Rating (Fitch or Equivalent)	Maximum Amount	Maximum Duration
UK Government	AA-	Unlimited	1 Year
Barclays Bank PLC (the Authority's own bank)	A	£10M	Overnight
Banks	A+	£10M (£20M per group)	1 Year
	A	£10M (£20M per group)	6 Months
	A-	£10M (£20M per group)	100 Days
Building Societies	A	£5M	6 Months
	A-	£5M	100 Days
Local Authorities	AA-*	£5M	1 Year
Money Market Funds (including VNAV)	AAA	£10M per fund	Overnight**

** Not all Local Authorities are separately rated, but they are deemed to be in line with the UK Government reflecting the likelihood of intervention in the event of severe financial difficulty.*

*** Money Market Funds may be invested for longer periods than overnight, however funds can be withdrawn daily if required.*

4.9 In addition to the use of credit ratings, the Authority will be advised of information in movements in CDS and other market data on a weekly basis, which will be used to inform the amount and duration of new investments. If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria (e.g. a credit rating below A-), it will be withdrawn from the approved list immediately and any outstanding investments not re-invested at maturity.

4.10 Members are also asked to approve the limits overleaf which consider the Authority's total exposure to loans, non-specified investments and foreign countries. These limits are designed to protect the Authority from undue credit / counterparty risk and are additional to those set out in paragraph 4.8:

Type	Maximum Amount	Comments
Total loans or investments with unrated entities / entities rated below A-	N/A	The Authority has no intentions to invest with entities without credit ratings or those with credit ratings below A-.
Total long-term investments	N/A	The Authority has no intentions to invest long term (i.e. for periods of more than 12 months).
Total non-specified investments	N/A	The total of the two limits above.
Total investments with institutions domiciled in foreign countries	£5M	This limits the overall amount that can be invested with institutions from outside the UK and is subject to a minimum sovereign credit rating of AA- (equivalent to the UK).

4.11 The process for approving such investments is detailed in Treasury Management Practice Document 5: Organisation, Clarity and segregation of Responsibilities and Dealing Arrangements, which requires prior authorisation from the Treasurer.

Price Risk (Security)

4.12 This is the risk of a reduction in value of funds invested, due to an adverse change in market conditions. Owing to the low-risk strategy that the Authority has adopted, the risk of credit loss is deemed immaterial (therefore no impact on the general fund), however officers will continue to monitor this position on a regular basis to identify any potential risks going forwards.

Legal and Regulatory Risk (Security)

4.13 This is the risk that the Authority or an organisation which it is undertaking treasury management activities with, fails to act in accordance with its legal powers or regulatory requirements, causing reputational damage and / or resulting in financial loss.

4.14 In order to mitigate this risk, the Authority adopts the recommendations of the statutory guidance and receives professional advice from its Treasury Management advisers (Link Asset Services). Officers attend and / or receive regular training updates to keep up with the latest developments and regulatory changes.

Liquidity Risk

4.15 This is the risk that cash is not available when needed to meet the Authority's spending commitments, causing reputational damage, compromise service objectives and / or leading to additional unbudgeted costs.

4.16 In line with the DLUHC investment advice on the liquidity of investments, the Authority will aim to maintain an appropriate balance of liquid funds (i.e. the Barclays Flexible Interest-Bearing Current Account and Money Market Funds).

4.17 In accordance with the Authority's low risk appetite, the majority of investment maturities are to be kept relatively short i.e. for periods less than 12 months (further details in the table at paragraph 4.8).

Yield

4.18 The pursuit of optimum returns is a secondary priority to security and liquidity. This is particularly important in a period of significant political and economic uncertainty and the Authority continues to maintain a low-risk appetite for investments.

Diversification

4.19 Although the Authority currently has a good spread of investment instruments, officers will continue to evaluate alternative options that meet the principles of security, liquidity and yield. Consideration will be given to alternative investment opportunities and whether they are suitable for the Authority's investment portfolio. Advice will be sought from Link prior to the use of any new investment instruments.

4.20 In addition to the core investment principles of security, liquidity and yield the Authority will also seek to diversify investments to avoid concentration in specific banks, types of instrument, sovereign state etc. Consideration will also be given to the overall concentration of investments within each sector.

4.21 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels are set to ensure prudent diversification is achieved and these, together with minimum ratings and cash limits, are shown in the table at paragraph 4.8.

Environmental, Social and Governance (ESG) Considerations

4.22 Changes to the CIPFA TM Code 2021 include ESG investment considerations which should be incorporated into the Authority's treasury management practices and procedures. This is a developing area and the measurement of ESG considerations is more widely used in equity and bond markets rather than for short-term cash deposits that the Authority uses.

4.23 Where possible, treasury officers will consider ESG investment options which are consistent with the Authority's own environmental and climate change policies although it is recognised that this is currently difficult. Further information on this matter will be provided once it becomes available and any updates to the Annual Investment Strategy will be made as necessary.

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT 2024/25

1 Introduction & Background

1.1 Treasury management activities are defined as “the management of the organisation’s borrowing, 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”.

1.2 The Authority regards 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 South Yorkshire Fire and Rescue Authority (SYFRA) and any financial instruments entered into to manage these risks.

1.3 The Authority adopts the principles outlined in the CIPFA Code which requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

1.4 The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors and recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

1.5 The training needs of the Authority’s treasury management staff are assessed on a regular basis. Key members of staff attend training courses, seminars and conferences, the majority of which are provided by the Authority’s Treasury Management Advisers, Link, as appropriate. In addition, members are encouraged to attend treasury management awareness / refresher sessions, provided by Link.

1.6 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.

2. Policies and Objectives of Treasury Management Activities

2.1 The Authority’s high-level policies for borrowing and investments are summarised overleaf:

2.2 Policy on Borrowing

The borrowing strategy will balance the need to reduce the risks in holding high levels of cash with obtaining value for money in borrowing activities, which may involve postponement of borrowing. However, against this background, and the risks within the economic forecast, caution will be adopted:

- If it was felt that there was a significant risk of a fall in long and short-term rates, for example due to a marked increase in risks around relapse into recession or of risks of deflation, then long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.
- If it was felt that there was a significant risk of a much sharper rise in long and short-term rates than currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

2.3 Policy on Investments

The investment strategy has as its primary objectives to protect principal sums invested from loss and to ensure adequate liquidity so that funds are available when needed. SYFRA also has a secondary aim to achieve the optimum return in investments commensurate with proper levels of security and liquidity. In the current economic climate, the risk appetite of this Authority is low in order to give priority to the over-riding risk consideration of counterparty security. SYFRA will therefore continue to invest only with high quality counterparties.

2.4 Policy on Borrowing in Advance of Need

The Authority's policy on borrowing in advance of need is that it will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

2.5 Policy on the use of Derivatives

The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of financial derivatives. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the TMSS. The Authority will only use derivatives where they can be clearly demonstrated to reduce the overall level of financial risk. Derivatives may be arranged with any organisation that meets the Authority's approved investment criteria. The Authority will only use derivatives after seeking a legal opinion and ensuring that officers have the appropriate training to effectively manage their use.

2.6 The Authority will provide the following reports as required by the Prudential and Treasury Management Codes:

- <u>The Capital Investment Strategy</u>

This sets the framework for all aspects of the Authority's capital and investment expenditure including prioritisation, governance, planning, outcomes, management, funding and monitoring.

- <u>Treasury Strategy and Prudential and Treasury Indicators</u>

This report covers:

- the Authority's capital expenditure plans;
- the MRP Policy Statement;
- the Authority's borrowing strategy;
- the Annual Investment Strategy, and
- the Authority's Prudential and Treasury Indicators.

- <u>Quarterly Treasury Management Reports</u>

This will update members with progress on the capital and treasury position, amending prudential indicators as necessary, and on whether treasury management activities are meeting the strategy or whether any policies require revision.

- <u>An Annual Treasury Report</u>

This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. Treasury Management Scheme of Delegation

3.1 The Authority will:

- receive and review reports on treasury management policies, practices and activities;
- approve the annual strategy, and
- approve amendments to the adopted clauses within Financial Regulations and the treasury management policy statement.

3.2 The Audit and Governance Committee will:

- scrutinise and make recommendations to the Authority on the treasury management strategy and policies,
- monitor the implementation of policies and practices, and
- receive and review regular monitoring reports.

3.3 Treasury Management Role of the Treasurer:

The Treasurer has overall responsibility for the execution and administration of treasury management decisions and will be responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit and liaising with external audit, and
- the appointment of external service providers.

APPENDIX B

2024/25 MINIMUM REVENUE PROVISION (MRP) STATEMENT

The Authority is required to make a prudent provision for debt repayment known as the Minimum Revenue Provision (MRP). Guidance on MRP has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under Section 21(1A) of the Local Government Act 2003. The four MRP options available are:

Option 1: Regulatory Method;
Option 2: CFR Method;
Option 3: Asset Life Method, and
Option 4: Depreciation Method.

NB This does not preclude other prudent methods

MRP in 2024/25: Options 1 and 2 may only be used for General Fund supported expenditure. Methods of making prudent provision for General Fund self-financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Authority chooses).

The MRP Statement is required to be submitted to the Authority before the start of the financial year for approval. Any revision of which must also be submitted to the Authority for approval. The Authority is recommended to approve the following statement:

- **For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with Option 3;**
- **For supported capital expenditure incurred after 1st April 2008, MRP will be determined in accordance with Option 3;**
- **For non-supported (prudentially borrowed) capital expenditure incurred after 1st April 2008, MRP will be determined in accordance with Option 3;**
- **Within Option 3, MRP is permitted to be calculated in one of two ways - equal instalments or on an annuity basis. The Authority has chosen to calculate MRP on an annuity basis, and**
- **MRP will normally commence in the financial year following the one in which expenditure is incurred. However, MRP Guidance permits local authorities to defer MRP until the financial year following the one in which the asset becomes operational. The Authority has chosen to employ this option for significant qualifying projects.**

MRP in respect of on balance sheet leases will match the annual principal repayment for the associated deferred liability. This approach will produce an MRP charge comparable to that under Option 3 in that it will run over the life of the lease term.

Changes introduced by the revised (DLUHC) guidance on MRP mean that any charges made over the statutory minimum revenue provision (MRP) can, if needed, be reclaimed in later years if deemed necessary or prudent. To date no such voluntary overpayments have been made.

APPENDIX C

PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2026/27

Estimates of Capital Expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

	2023/24 (£M)	**2024/25** (£M)	**2025/26** (£M)	**2026/27** (£M)
Indicative Capital Programme	8.931	8.962	8.939	8.510
Total Capital Expenditure	**8.931**	**8.962**	**8.939**	**8.510**

Estimates of Capital Financing Requirement

This indicator sets out the Authority's CFR, which reflects the capital expenditure (both historic and planned) being funded from borrowing or other long-term liabilities (e.g. PFI schemes, finance leases). The Authority is asked to approve the CFR projections below:

Estimated CFR	**2023/24** (£M)	**2024/25** (£M)	**2025/26** (£M)	**2026/27** (£M)
Opening Balance	31.564	39.940	48.216	56.386
Add Net Financing Need	8.819	8.829	8.839	8.410
Less Amounts Set Aside to Repay Debt	(0.443)	(0.553)	(0.668)	(0.788)
Closing Balance	**39.940**	**48.216**	**56.386**	**64.008**

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed, based on the Authority's CFR (see above). The Authority is asked to approve the limits set out below:

Operational Boundary	**2023/24** (£M)	**2024/25** (£M)	**2025/26** (£M)	**2026/27** (£M)
Debt	39.940	48.216	56.386	64.008

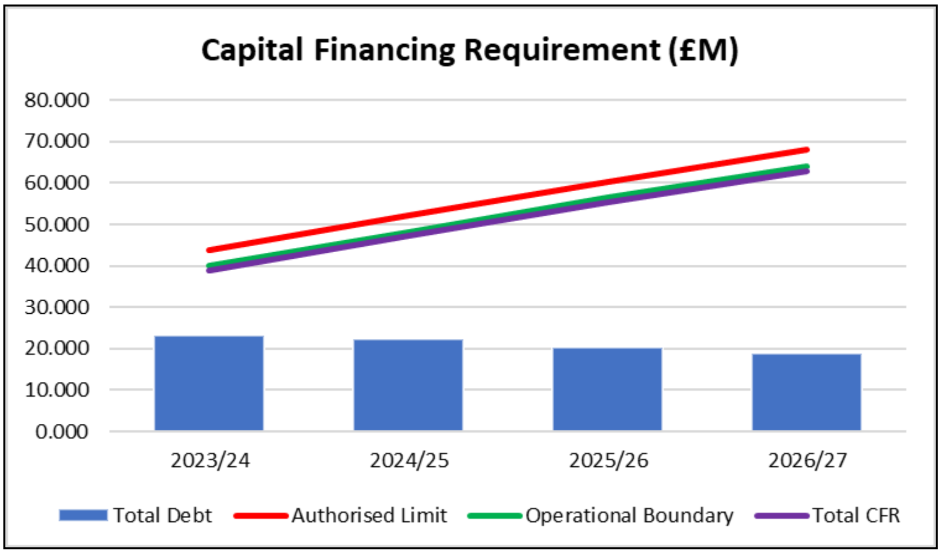
The Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit has been set at £4M above the Operational Boundary.

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 authorities' plans, or those of a specific authority, although this power has not yet been exercised. The Authority is asked to approve the following authorised limit:

Authorised Limit	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Debt	43.940	52.216	60.386	68.008

The CFR and limits identified in the tables above are illustrated below:



From 1st April 2024 the Authority will be required to implement IFRS 16 which is replacing the previous accounting standard applied for leases. This standard removes the distinction between finance and operating leases which means that many of the Authority's existing leases will now be brought onto the balance sheet, potentially increasing the Authority's CFR and therefore increasing the operational boundary. The effect of this for the Authority is currently projected to be minimal, however this will be monitored on an ongoing basis.

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. The authority is asked to approve the following limits overleaf:

Loan Maturity Structure (All Years)		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	15%
2 years to 5 years	0%	45%
5 years to 10 years	0%	75%
10 years and above	25%	100%

Maximum Principal Sums Invested for more than 365 Days

These limits are set with regard to the Authority's liquidity requirements and the expected availability of funds after each year-end. At present the Authority has no intentions to invest for periods of more than 365 days.

Ratio of Financing Costs to Net Revenue Streams

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

Ratio of Financing Costs to Net Revenue Streams	2023/24	2024/25	2025/26	2026/27
General Fund	2.24%	2.95%	3.47%	3.46%

APPENDIX D

DEFINITION OF TERMS

Treasury Management refers to the management of the organisation's borrowing, 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 is the Chartered Institute of Public Finance and Accountancy - the leading accountancy body for the public services providing education and training in accountancy and financial management.

DLUHC is the Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government) - a ministerial department responsible for UK Government policy on housing and public services.

MRP refers to the Minimum Revenue Provision - a statutory annual charge to the revenue account for the repayment of debt (as measured by the Capital Financing Requirement).

Capital Financing Requirement (CFR) represents the Authority's underlying indebtedness for capital purposes, based on historic capital expenditure which hasn't yet been financed (e.g. from grants, capital receipts or revenue contributions).

Debt refers to the sum of borrowing and other long-term liabilities.

Other Long-Term Liabilities mean the liabilities outstanding under credit arrangements (e.g. PFI contracts or finance leases).

Internal Borrowing / Under-Borrowed refers to the temporary use of cash resources (e.g. reserves earmarked for future capital expenditure or grants received in advance of expenditure) to avoid borrowing immediately, which seeks to reduce investment counterparty risk and create a short-term budget saving. The Authority will replace these cash resources with external borrowing as these spending commitments occur.

Specified Investments are short-term investments (i.e. less than 12 months) denominated in pounds sterling with a high credit quality.

Non-Specified Investments refers to any financial investments (excluding loans) that do not meet the criteria to be treated as a specified investment.

Investments in Foreign Countries refer to investments placed with counterparties from countries outside the UK (subject to a minimum sovereign rating of AA-).