



Peter McCall

# Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 003/ 2022)

**TITLE: Approval of the Capital Strategy, Capital Programme and Treasury Management Strategy 2022/23**

## Executive Summary:

The purpose of this report is to provide information on the proposed capital strategy for 2022/23. The capital strategy (item 08a) is an overarching strategy that sits above the two documents which have been produced historically namely the capital programme (item 08b) and the treasury management strategy statement (item 08c). The capital strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. In the past, to meet these requirements, all schemes within the 4 year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts or revenue contributions. The proposed programme meets this test. However, the MTFE timeframe has now been increased to cover a 5 year period in line with best practice. A concern is raised that there is a capital funding deficit of £2.94m in 2026/27 as a result of the implementation of the Emergency Services Network. The capital funding deficit increases to £7.62m over years 5 to 10. The estimates for 5-10 years are

however built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings.

### Recommendations:

- 1.1. **Capital Strategy (Item 08a)** – The Commissioner is asked to approve the capital strategy including the prudential indicators set out in the report.
- 1.2. **Capital Programme (Item 08b)** - The Commissioner is asked to:
  - Approve the capital programme for 2022/23 and beyond as part of the overall budget process for 2022/23.
  - Approve the status of capital projects as detailed in appendices 2 to 5.
- 1.3. **Treasury Management Strategy (Item 08c)** - The Commissioner is asked to:
  - Approve the Borrowing Strategy for 2022/23 as set out on pages 8-9
  - Approve the Investment Strategy for 2022/23 as set out on pages 10-13
  - Approve the Treasury Management Prudential Indicators as set out on pages 15-16
  - Approve the other Prudential Indicators set out on pages 17 to 21
  - Approve the Minimum Revenue Provision Policy Statement for 2022/23 as set out on page 22
  - Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website.
  - Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

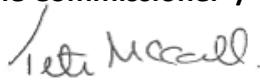
### Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/do not approve the recommendation above

**Police & Crime Commissioner / ~~Chief Executive~~ (delete as appropriate)**

Signature:



Date: 16 February 2022



Peter McCall



## Capital Strategy 2022/23



# Office of the Police and Crime Commissioner Report

## Public Accountability Conference 16 February 2022

**Title: Capital Strategy 2022/23**

Report of the Joint Chief Finance Officer

**Originating Officers: Michelle Bellis, Deputy Chief Finance Officer;  
Lorraine Holme, Financial Services Manager**

### 1. Purpose of the Report

- 1.1. This capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2. The aim of this report is to provide enough detail to allow non-financial decision makers to understand how stewardship, value for money, prudence, sustainability and affordability will be secured without repeating in detail the information that is contained in other documents presented as part of this suite of capital and treasury management reports (agenda items 08b & 08c).
- 1.3. These reports meet the reporting requirements of the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code for capital finance in Local Authorities 2017 updated guidance.

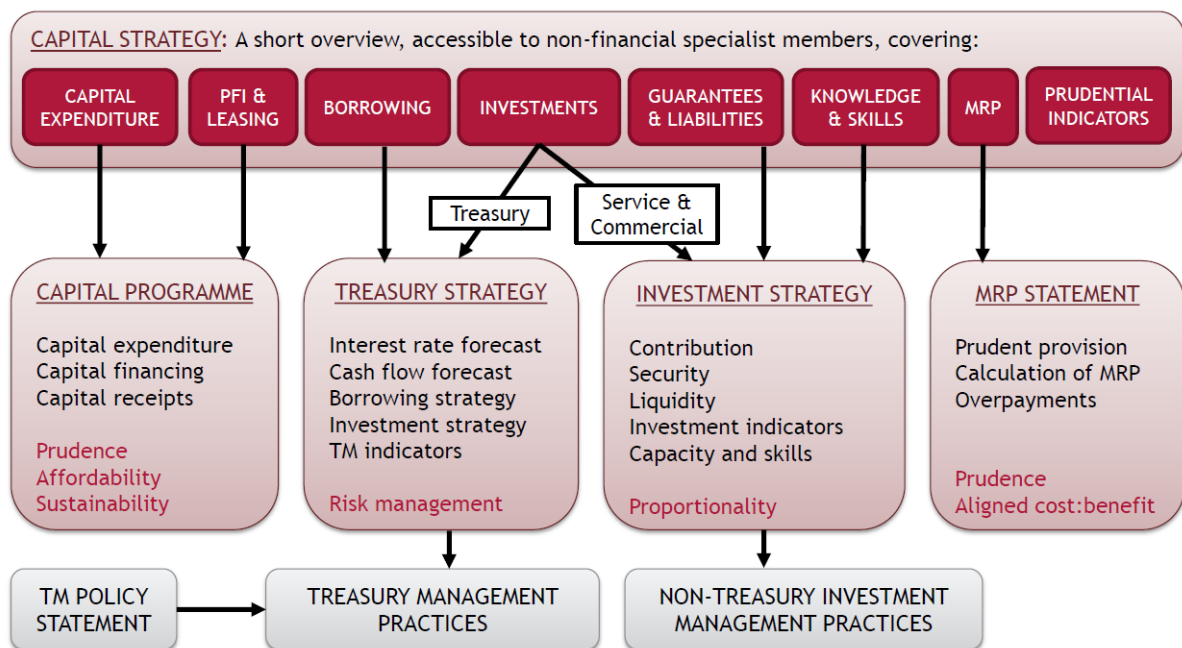
### 2. Recommendations

- 2.1. The Commissioner is asked to approve the contents of the report.

### 3. Introduction

3.1. The CIPFA Prudential Code (the code) and guidance notes were originally issued in 2002 and were later fully revised in 2009, 2011 and again in 2017. This code requires the Commissioner to look at capital expenditure and investment plans in light of the overall strategy and resources and ensure that the decisions are being made with sufficient regard to the long run implications and potential risks to the Commissioner. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023.

3.2. This capital strategy report summarises the purpose and governance over a range of activities associated with capital investment and financing, which are reported on in detail elsewhere on this agenda item. The diagram below provides an overview of the scope of these activities, their inter-dependencies and reporting structures:



\*The MRP Statement, Investment Strategy and the Prudential Indicators of the Commissioner are encompassed into the Treasury Management Strategy.

### 4. Capital Expenditure and Financing

4.1. Capital expenditure is the term used to describe expenditure on assets, such as property, vehicles and ICT equipment, that will be used (or have a life) of more than 1 year. There is some limited discretion on what is to be treated as capital expenditure and assets costing less than £25k will be charged to the revenue account in accordance with the Financial Rules and Regulations (this is known as the deminimis level).

4.2. Capital expenditure plans are under-pinned by asset strategies, which are developed by respective service leads linked to delivery of the Commissioner’s Police and Crime Plan and the Constabulary’s overall Vision 2025. The principal asset strategies and their objectives are:

- The Digital, Data and Technology Strategy, which has six key themes
  - On-going provision of trusted and reliable ICT services. Business as Usual
  - A cost effective and affordable ICT service
  - Actively supporting the delivery of Cumbria Vision 25
  - To implement national ICT systems
  - To meet local demand to renew and replace Core Systems and Applications
  - Collaboration
- The Estates Strategy, which aims to maintain an Estate which is fit for purpose whilst reducing overhead expenditure and maximising and exploiting existing assets.
- The Fleet Strategy, which aims to satisfy the Constabulary’s vehicle needs within a sustainable financial model.

4.3. A workplan is developed annually to support delivery of each strategy. The updated financial implications are distilled early in the financial planning process and subsequently consolidated to produce a ten year capital programme. The overall capital programme is then subject to a process of financial scrutiny in the context of both available capital funding resources and the overall revenue budget position. The final capital programme and associated asset strategies are subject to approval by both the Constabulary Chief Officer Group and the Commissioner at his Public Accountability Conference.

4.4. The capital expenditure estimates for the current year and five year medium term are shown below:

Capital Expenditure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71	9.69

4.5. The profile of capital expenditure fluctuates annually. Across the current five year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £2.9m on estate schemes (although by their nature these investments tend to be more lumpy) and around £4.4m for replacement of ICT systems and equipment.

- 4.6. The 2022/23 capital programme includes ICT expenditure on development and roll out of mobile technology and smartphones, consideration of options for ICT infrastructure and a move to more cloud based systems. In addition, preparatory work on the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN) will continue, in advance of significant expenditure to implement the system in future years. Investment in the on-going replacement of vehicles in accordance with the Fleet Strategy will continue. Expenditure on Estates schemes over the 5 years is dominated by the need to evaluate options and provide a territorial headquarters in the west of the County upon the expiry of the existing PFI arrangement in 2026. Work will also be undertaken to assess the capital investment requirements to equip the additional officers recruited through Operation Uplift and some provision has been made for this in the programme.
- 4.7. Before the commencement of each financial year the schemes for that year are revisited to be assigned an approval category. Large schemes which have previously been approved by the Commissioner following submission of a business case and the smaller rolling replacement schemes are approved on a firm basis, meaning that they can be progressed without further scrutiny. Schemes which have been approved in principle but need some detailed work may be delegated to the Joint Chief Finance Office for future approval. Schemes requiring business cases, option appraisals and financial appraisals are given the status of indicative until they have been thoroughly scrutinised by all relevant business leads before being passed to the Constabulary Chief Officer Group and the Police and Crime Commissioner for final approval.
- 4.8. The capital programme must be financed from a combination of capital grants, capital receipts, reserves, direct support from the revenue budget and, unlike the revenue budget, borrowing is permitted. Whilst it is a statutory requirement that the Commissioner agrees a balanced revenue budget, the Prudential Code requires the capital programme to be demonstrated as 'Affordable, Prudent and Sustainable', it is up to each authority how it determines these criteria. Cumbria has previously defined an 'Affordable, Prudent and Sustainable' programme as being fully funded (from the sources outlined above) for the medium term financial forecast (MTFF) period of 4 years. The MTFF has recently been extended to cover a 5 year time frame in accordance with best practice. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to

deliver revenue savings. The revenue budget and MTFF must also fully reflect any revenue implications of the capital programme including servicing costs of borrowing.

- 4.9. The difficulty facing Cumbria is that capital grants have been reduced to zero, the potential to generate future capital receipts is low and capital reserves are likely to have been fully utilised in the next two years. Whilst some additional capital borrowing is planned to finance long lived estates projects, this is not a viable option for shorter life assets such as vehicles and ICT. Collectively, this means that the Capital Programme is increasingly reliant on contributions from the revenue budget to fund it. This is reflected in the revenue budget and MTFF where revenue support for capital have increased to an annual figure of £3.8m by the end of the 10 year forecast period.
- 4.10. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debts. Capital financing assumes that all capital receipts will be used to finance new assets rather than reduce existing debt.
- 4.11. Full details of the 10 year programme and associated financing can be found in the separate report 'Capital Programme 2022/23 to 2031/32 (item 08b on this agenda).

## 5. Treasury Management

- 5.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet spending needs while managing the risks involved. Surplus cash is invested until required while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Police and Crime Commissioner is generally cash rich in the short term due to the level of reserves currently held and revenue grants being received in advance of spend, but cash poor in the long term due to capital expenditure being incurred in advance of being financed.
- 5.2. Treasury Management involves the management of large sums of money and is therefore inherently risky. Accordingly, treasury activities are strictly controlled and managed in accordance with CIPFA's Prudential Code. The Treasury Management Strategy is approved annually by the Commissioner at his Public Accountability Conference, with activities being reported upon a periodic basis through the same meeting. The Joint Audit Committee also provides scrutiny of treasury management activities. Responsibility for treasury activities is delegated to the Joint Chief Finance Officer, who delegates responsibility for day to day management to the Deputy Chief Finance Officer. The Treasury Management Strategy incorporates subsidiary investment and borrowing strategies, which are summarised below.



- 5.3. **Investment strategy** - Treasury investments arise from receiving cash before it is paid out again. The Commissioner makes investments because he has a cash surplus as a result of his day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments). The Commissioner does not make investments to support local public services by lending to or buying shares in other organisations (service investments), or to earn investment income (known as commercial investments where investment income is the main purpose).

The Commissioner's policy on treasury investments is to prioritise **security** and **liquidity** over **yield**; that is to focus on minimising risk rather than maximising returns. The risk that an investment counter-party defaults is very real as illustrated by the BCCI and, more recently, Icelandic Banks scandals, which impacted on public sector bodies. The investment strategy seeks to mitigate this risk by only investing in high quality, trusted counter-parties and spreading the investment portfolio across organisations. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy (subject to strict criteria) and the Commissioner may request his money back at short notice.

Whilst the Commissioner has historically held significant investments, these balances are being reduced as the Commissioner has undertaken internal borrowing to support the capital programme (see below) and reserves are drawn down to support the revenue budget.

Further details on treasury investment strategy are on pages 10 to 13 of the treasury management strategy (agenda item 08c).

- 5.4. **The Borrowing Strategy** – As indicated the Commissioner currently holds no external debts, other than a PFI arrangement described in section 6 of this report, with all external borrowing with the PWLB (Public Works Loans Board) having been repaid during 2012/13. However, there is an underlying need to borrow, known as the Capital Financing Requirement (CFR), arising from historical decisions to finance capital expenditure from borrowing within prudent limits. To date this has been met from internal borrowing.
- 5.5. The capital financing requirement (CFR) is a measure of the amount of capital spending that has not yet been financed by capital receipts, grants or contributions, it is in essence the amount of internal

debt finance of the Police and Crime Commissioner. The CFR increases each time there is new capital expenditure financed by debt and decreases with MRP repayments, capital receipts assigned to repay debt or by making additional voluntary contributions. The CFR for the 31 March 2022 is forecast to be £20.97m.

**Internal Borrowing** – the practice of using reserves and provisions that have been set aside for future use to fund capital expenditure plans now. External borrowing comes with interest payments of currently around 2.4+% where investments are currently making less than 1% return in terms of interest, therefore there is an incremental cost to borrow in advance of need (known as cost of carry). This is therefore discouraged if there are cash reserves available that can be drawn down as an alternative to borrowing.

- 5.6. The main objectives when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Commissioner would therefore have to strike a balance between low cost short-term loans (currently available at around 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently 2.4%+). Current forecasts show that a small amount of short term borrowing, probably from other local authorities, may be required at the start of 2023/24 to bridge a shortfall in cash in advance of receipt of the new financial year's revenue grants.

It is unlikely that the Commissioner will actually exercise long term external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing, as this would result in a significant net interest cost to the revenue account in the short term. Nevertheless, such financing decisions have long term consequences and should be taken in this context. Long term interest rates will therefore be carefully monitored with the aim of deciding the most advantageous time to take on long term liabilities.

**Liability Benchmark** - The 2017 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Link Asset Services (the Commissioner's treasury advisors) are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

As an assurance that borrowing is only undertaken for capital purposes and is sustainable, the Commissioner is required to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with the statutory guidance a lower 'operational boundary' is also set as a warning level should debt approach the limit.

Further details on the borrowing strategy are on pages 8 to 9 of the treasury management strategy (agenda item 08c).

## 6. Other Liabilities

- 6.1. In relation to other external liabilities the Commissioner's balance sheet currently shows debt of £4.403m in relation to a private finance initiative (PFI) scheme for the provision of the Territorial Police HQ in West Cumbria. This debt is scheduled to reduce gradually through annual unitary charge payments met from the revenue account, until 2026 when the primary arrangement comes to an end. At this point a decision on the provision of future policing facilities in West Cumbria will need to be made. Options are currently being evaluated.
- 6.2. The Commissioner's balance sheet also shows long term liabilities totalling £1.522bn in respect of the Local Government and Police Officer Pension Scheme deficits. These will be met through a combination of payments from the revenue budget over a long period and support from central Government. A sum of £1.395m has been set aside to cover risks from legal claims and insurance liabilities. The Commissioner is also at risk of having to pay for an unlawful discrimination claim arising from the transitional provisions in the Police pension Regulations 2015 but has not put aside any money because there is no clarity of the scale of the claim and no certainty over who will bear the costs at this time.
- 6.3. The risk of these pension liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 92 of the 2020/21 statement of accounts.

## 7. Prudential Indicators

- 7.1. Both capital expenditure plans and treasury management are supported by a range of Prudential Indicators, whose purpose is to act as an early warning system that these activities are falling outside prescribed limits and may no longer be affordable, prudent or sustainable. Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time,

and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under the Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference. Details of Prudential indicators are set out on pages 15-21 of the treasury management strategy (agenda item 08c).

## 8. Revenue Budget Implications

8.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. In addition, a direct contribution is made from revenue budget towards funding the capital programme. In 2022/23 this direct revenue contribution will amount to £4.4m.

8.2. The Commissioner is also required to set aside a sum each year from the revenue budget to repay borrowing, which is linked to the life of the asset being financed. This is known as the minimum revenue payment (MRP) and can be likened to the minimum repayment on a credit card debt. The estimates for the repayment of internal borrowing from the revenue budget is shown below:

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Minimum revenue provision	Actual	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m	£m
Minimum revenue provision for the financial year	0.61	0.63	0.65	0.68	0.71	0.93	0.59

8.3. The net annual charges to the revenue account are collectively known as financing costs; which are compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants as a key prudential indicator of the affordability, prudence and sustainability of capital expenditure plans see below.

Ratio of Financing Costs to Net Revenue Stream	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m	£m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93	0.59
<b>Financing Costs</b>	<b>0.59</b>	<b>0.62</b>	<b>0.64</b>	<b>0.67</b>	<b>0.70</b>	<b>0.92</b>	<b>0.58</b>
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93	141.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%	0.41%

The ratios of financing costs to the revenue budget above are considered sustainable.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFF period may extend for up to 50 years into the future. The Joint Chief Finance Officer is satisfied that the proposed capital programme is **prudent, affordable and sustainable**.

## 9. Knowledge and Skills

- 9.1. The Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Joint Chief Finance Officer is committed to the Governments apprenticeship levy scheme and currently has one employee in the final stages of studying at Level 3/4 (AAT) and has in December/January had one employee complete qualification studies at Level 3/4 (AAT) and another at Level 7 (CIPFA).
  
- 9.2. Where employees do not have the knowledge and skills required, use is made of suitably qualified external advisers. The Commissioner currently employs Link Asset Services Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Commissioner has access to knowledge and skills commensurate with his risk appetite.

## CUMBRIA VISION 25





# Cumbria Office of the Police and Crime Commissioner

## Title: Capital Programme 2022/23 & Beyond

**Public Accountability Conference: 16th February 2022**

Report of the Joint Chief Finance Officer

Originating Officers: Michelle Bellis, Deputy Chief Finance Officer  
Lorraine Holme, Financial Services Manager

### 1. Purpose of the Report

1.1. The purpose of this report is to provide information on the proposed capital programme for 2022/23 and beyond, both in terms of capital expenditure projections and the financing available to fund such expenditure. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

### 2. Recommendations

2.1. Police and Crime commissioner is asked to note the proposed capital programme for 2022/23 and beyond as part of the overall budget process for 2022/23.

2.2. The Commissioner is asked to approve the status of capital projects as detailed in appendices 2 to 5.

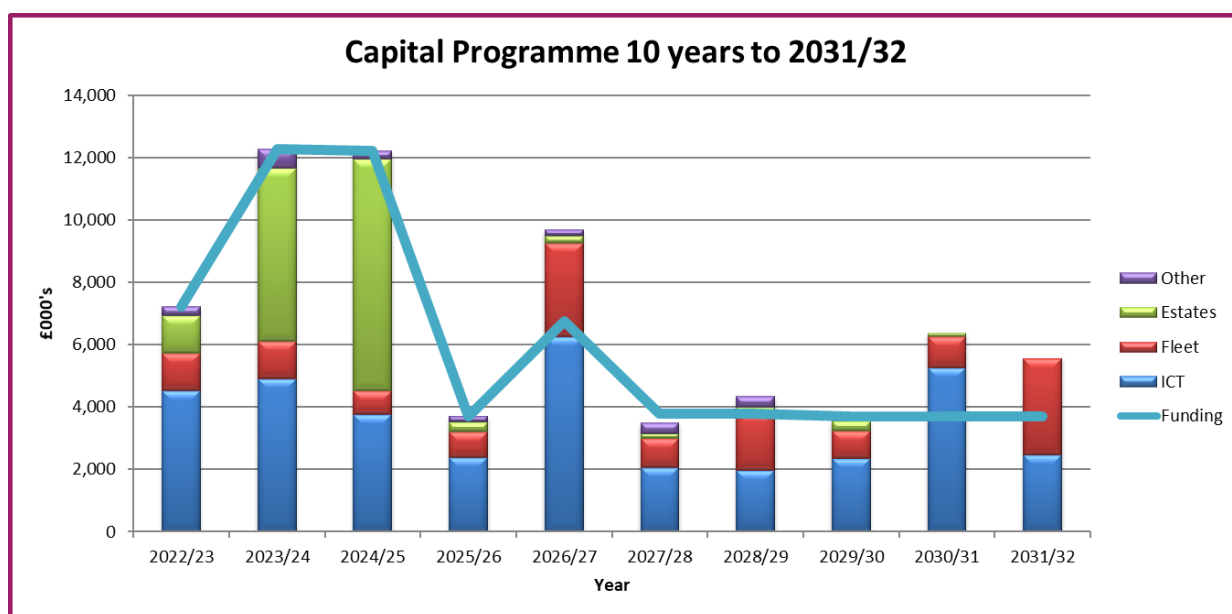
### 3. Capital Funding and Expenditure

- 3.1. Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. In previous years the test that has been applied to meet these requirements is that all schemes within the 4-year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts, revenue contributions or planned borrowing. In compliance with CIPFA best practice guidance the medium-term financial timeframe for both revenue and capital expenditure planning has now been extended to 5 years.
- 3.2. There are three main recurring elements to the Commissioner’s capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these, there are currently a small number of “other schemes” which do not fall into the broad headings above and include the replacement of the countywide CCTV system and replacement of firearms equipment, such as tasers.
- 3.3. The profile of capital expenditure fluctuates annually. Across the current ten-year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles and around £3.5m for replacement of ICT systems and equipment. The profile of Estates schemes is ‘lumpier’, with peaks of expenditure when major buildings are replaced. ICT Expenditure reflects the Constabulary Strategy to invest in digital technology and the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).

3.4. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the five-year timeframe of the medium-term financial forecast (2022/23 to 2026/27).

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £
ICT Schemes	2,361,763	4,530,120	4,892,291	3,768,847	2,388,379	6,248,985
Fleet Schemes	2,700,594	1,191,000	1,215,840	749,216	821,500	2,995,704
Estates Schemes	1,395,726	1,206,249	5,550,000	7,440,000	300,000	245,000
Other Schemes	299,426	291,719	617,829	267,829	200,000	200,000
<b>Total Capital Expenditure</b>	<b>6,757,509</b>	<b>7,219,088</b>	<b>12,275,960</b>	<b>12,225,892</b>	<b>3,709,879</b>	<b>9,689,689</b>
Capital Financing	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £
Capital Receipts	(84,800)	0	(1,182,217)	(380,864)	(105,997)	(3,113,091)
Revenue Contributions	(4,652,774)	(4,415,946)	(4,406,701)	(4,465,028)	(3,603,882)	(3,632,587)
Capital Grants	(1,999,935)	(2,203,142)	(1,687,042)	0	0	0
Capital Reserves	(20,000)	(600,000)	(3,380,000)	0	0	0
Borrowing	0	0	(1,620,000)	(7,380,000)	0	0
<b>Total Capital Financing</b>	<b>(6,757,509)</b>	<b>(7,219,088)</b>	<b>(12,275,960)</b>	<b>(12,225,892)</b>	<b>(3,709,879)</b>	<b>(6,745,678)</b>
<b>(Excess)/Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,944,011</b>

3.5. The diagram below shows the make up of the capital programme over 10 years. The large block of Estates work in 2023/24 and 2024/25 relates to the planned replacement of the Territorial Policing HQ in West Cumbria at the end of the current PFI contract. An options evaluation with regard to this project is currently being progressed and formal approval will be required before the scheme commences.

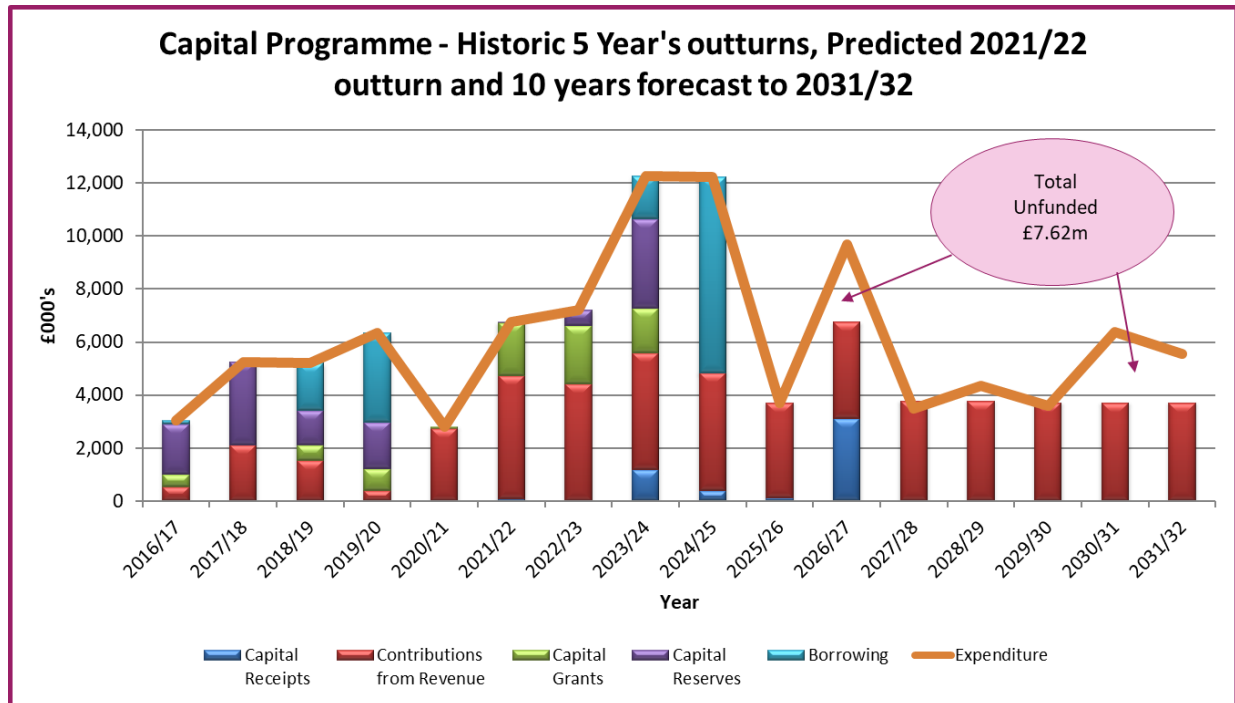




- 3.6. Since the last capital strategy was agreed by the Commissioner in February 2021 a number of new capital demands have emerged. These have included short term requirements to replace kenneling for police dogs £1.5m, adapting the HQ site primarily to provide increased learning and development capacity in the context of increased recruitment from Operation Uplift £0.4m and the replacement of the Police Records Management System by 2024/25 at an estimated cost of £3m. These additional short term capital demands will be financed through a combination of draw-down of revenue reserves and direct support from the revenue budget.
- 3.7. Increased costs are also forecast in the later years of the ten-year capital programme. In particular, a re-assessment of the costs of implementing the Emergency Services Network (ESN) has been undertaken based on revised modelling issued by the Home Office. This work has identified an upward revision of the implementation costs of the new system by £3m, with the bulk of the additional cost arising around the point of transition in 2026/27. ESN is a complex national project, which has been subject to repeated delays and uncertainty regarding the proportion of costs which will ultimately be borne by forces.
- 3.8. In addition, recent increases in the costs of vehicles have also added a further £3m to the cost of fleet replacement over the ten-year forecast period. There is also a risk that additional vehicles to meet the needs of the additional officers recruited through Operation Uplift will be required, which will require a business case, but would add further to the fleet programme costs.
- 3.9. Historically the capital programme has been financed through a combination of capital grants, capital receipts, capital reserves, borrowing and contributions from the revenue budget. Reserves and accumulated capital grants will be largely exhausted by 2023/24. In addition, the Government's grant settlements over recent years had successively reduced the level of specific capital grant funding to £97k p.a. by 2021/22. Capital grant funding was removed altogether from the 2022/23 police settlement, although the Policing Minister has made it clear that the additional revenue funding for Operation Uplift has included a capital element to support the infrastructure costs required to equip the additional officers in their roles.
- 3.10. As a result of the reducing funding sources described above and the majority of capital expenditure being in relation to relatively short-lived assets (e.g. ICT and fleet of up to 10 years' life), choices for financing the capital programme are fairly limited. Borrowing for short-lived assets is not a viable consideration due to the requirement to set aside funds from the revenue budget for the repayment of debt over the life of the asset. Therefore, any future borrowing would have to be in relation to building projects with a life of 50 years. It can be seen in **Appendix 1** that during 2023/24 and 2024/25 it is estimated that the Commissioner will need to borrow £9m. This is linked to an indicative scheme to improve the Commissioner's estate in the west of the county see para 3.5.

- 3.11. The capital programme has therefore become ever more reliant on revenue contributions to finance capital expenditure. Historically, the annual contribution from the revenue budget was set at £1.2m. The following increases have been approved since then
- PCP Jan 2017 - Increase of £0.48m to £1.68m for 2018/19 and 2019/20.
  - PCP Jan 2017 – Increase of £1.3m to £2.98m for 2020/21 onwards.
  - PCP Jan 2019 – Increase £0.3m to £3.28m from 2020/21.
  - PCP Feb 2020 – Increase £0.27m to £3.56m from 2020/21.
- 3.12. A summary of the 10-year capital programme is provided for information at **Appendix 1**. Whereas the ten-year capital programme in previous years was fully balanced, the increased capital expenditure and reduced funding outlined in the preceding paragraphs has given rise to a total capital funding deficit of £7.62m in years 5 to 10. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of ‘affordability, prudence and sustainability’ as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. The ten-year capital programme deficit of £7.62m would equate to an increase in revenue support of £0.76m pa over 10 years or £1.27m pa over the later 6 years.
- 3.13. Of particular concern is the projected deficit of £2.9m in 2026/27, which is largely as a result of the implementation of ESN. Given the higher than usual level of complexity and uncertainty regarding this project, further work will be undertaken within the Constabulary to validate the costs of ESN. However, there may ultimately be no option but to increase the level of support to the capital programme from the revenue budget.
- 3.14. Whilst the proposed capital programme meets the prudential code test of ‘affordability, prudence and sustainability’ that it fully funded over 4 years, it would no longer do so if the test were extended to 5 years due to the costs of implementing ESN. Further work will therefore be undertaken in 2022/23 to assure the programme’s sustainability over the longer term.

The chart below illustrates capital expenditure and funding over a historic five-year period and forecast for ten-year period which illustrates how the capital programme will become almost entirely dependent upon revenue funding in future and also highlights the funding gap, where the orange expenditure line exceeds the funding in the bars.



### 3.15. ICT Schemes

The ICT Capital Programme primarily provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the strategic and operational needs of the Constabulary. However, over the period of the medium term financial forecast it also supports the Constabulary strategy to invest in technology to modernise the police service that is delivered to our communities. The Policing Vision 2025 issued by the APCC and NPCC seeks to transform the delivery of policing services and positions ICT as a key enabler of change. These plans for the future will be developed and managed locally within the work streams of Cumbria Vision 2025.

The ICT capital programme is supported by the Digital Strategy.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance, in particular, the programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). The ESN scheme is included in the capital programme at the estimated cost of £5.40m over the five years of the MTFF and £10.1m over 10 years (an increase of £3m from the programme presented in February 2021). Details of requirements are still

emerging and it won't be clear as to the financial commitment needed locally until the Home Office release further information and devices are developed. The timescales for the project are constantly changing and it is likely to be the new financial year before we get any further clarity. These prudent commitments in the strategy place the Commissioner in a good position for any announcements. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure has been upgraded so it is ready to support the connection to ESN.

The pandemic has provided the Constabulary with an opportunity to assess the current agile working and look at how this will affect future working arrangements. This will help determine the ICT infrastructure that is needed to support a more agile future. The Infrastructure is currently a consolidation of server hardware in an on-site data centre. The desire is to move away from this expensive hardware and towards cloud storage. The project budget to deliver these changes has begun with a budget that is spread all 10 years (slightly front loaded) to reflect more accurately the financing of a managed solution. Such a solution could ultimately be classed as revenue expenditure but until such time that a 'Proof of Concept' provides us with a firm pathway to Cloud, the budget is provisioned for in capital.

The ICT programme also covers local and mandated national police systems such as the main crime and intelligence system, command and control, forensics management, prisoner information systems, case and custody, including digital files for sharing with Criminal Justice partners and the police national data base that supports the sharing of information between forces. Current exploratory work is underway to understand the best way forward to allow us to keep ahead of the evolving complexities of policing technologies and join all our information in one place. To facilitate these developments a record management system has been added to the programme with a value of £3m.

If these three large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at an average of £1.5m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks and security and that ensures information can be moved securely between the different systems and device end points through which it is entered, processed and stored. Over recent years significant investment in mobile and digital ICT has been undertaken, the capital strategy presented includes for the subsequent replacement of existing mobile devices as they reach end of life. Budgets for devices also provide for the costs of all the different technology used to access systems, including traditional desktop computers, laptops, tablets as well as the smartphones that use application technology (police apps), but importantly provide end user access to all systems and applications.

**Appendix 2** provides a high-level analysis of the ICT capital programme.

### 3.16. Fleet Schemes

The constabulary fleet replacement programme consists of around 300 vehicles. The capital programme provides for the replacement and kit out of these vehicles on a periodic basis at the end of their useful life. The fleet schemes are supported by the fleet strategy, an annual update of progress against which was presented to the Commissioner as part of the budget setting process in the autumn. The fleet strategy sets out the constabulary fleet requirements over the coming years. The main aim of the fleet strategy is to provide a cost effective fleet service to meet the needs of operational policing. The majority of vehicles are procured through a national framework agreement which ensures value for money is achieved.

During 2021/22 100 vehicles were planned for replacement (including 62 slipped from 2020/21) at an estimated cost of £2.7m. Many of these vehicles were to replace the 'Single Vehicle platform' vehicles that were originally rolled out in 2014/15. The pandemic delayed delivery of a large number of vehicles



in 2020/21, which have all now been received.

The delays caused some operational difficulties associated with managing and rotating an aging fleet but these vehicles have now all been replaced. Of the 38 vehicles in the programme for 2021/22 22 have been ordered with 13 of those being received and a further 6 expected close to the year end. Of

the remaining 16 vehicles yet to be ordered 11 are pool cars. A review of pool car usage and the type of replacement vehicles required will determine the timescales for replacement. The suitability of hybrid and fully electric vehicles are being considered. The effects of Brexit and the pandemic are being felt and the prices of some vehicles have risen. As a result of this the current year budget includes an increase of £66k to accommodate this price inflation.

The plan for 2022/23 is to replace 32 vehicles with a budget of £1,191k. This is made up with a mix of operational vehicles for territorial policing and several CSI vehicles. The budget has been created on pricing from current frameworks and recent purchases which reflect the recent price increases.

**Appendix 3** provides a high-level analysis of the fleet capital programme.

### 3.17. Estates Schemes

The Commissioner's estate currently consists of 29 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual update of progress against this was presented to the Commissioner as part of the budget setting process for 2022/23. The estates strategy aims to provide a link between the strategic objectives of the organisation and priorities for the estate. The strategy outlines the current and future requirements of the estate and documents the changes that are required to meet these.

The main focus of the strategy in recent years (following the development of the new Learning &



Development Centre and replacement hostel accommodation on the HQ site at Penrith) has been on smaller life cycle replacements at various premises, including roof repairs, heating and ventilation and improvements to the uninterrupted power supply.

As mentioned in section 3.6 there have been some new schemes added to the 2021/22 programme.

- The investment in additional Police Officers (Operation Uplift) requires some internal changes to the Learning and Development Centre to support the increased level of police officer recruitment at a value of £0.3m.
- The opportunity has arisen to replace the HQ kennels at a cost of £1.5m.
- Internal building work in the Occupational Health Building to create a purpose-built Taser training facility at a value of £50k.

The emphasis shifts for the coming years to focus on improved premises in the west of the county in response to major flooding incidents in recent years, options for which will continue to be developed over 2022/23. The west scheme accounts for the majority of the estates capital spend £13m out the £14.6m planned over the medium term, with some smaller items of life cycle replacement making up the difference. Beyond this, in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £221k per year for replacement schemes.

**Appendix 4** provides a high-level analysis of the estates capital programme.

### 3.18. Other Schemes

Other schemes include cross cutting or operational programmes of work and include the replacement of Tasers and Firearms, works to expand and replace the Countywide CCTV system.

**Appendix 5** provides a high-level analysis of the 'other' schemes.

## 4. Capital Receipts

4.1. **Appendix 7** provides details of property disposals and the proceeds of those sales over recent years. The table shows total property receipts of £5.021m. At 31 March 2021 there was a balance of property receipts unapplied of £2.096m plus the 2021/22 receipt of £0.253m, this means that £2.672m have already been applied to the capital programme. The majority of the sales resulted from an estates rationalisation programme and those sale proceeds were used to finance the South Area Headquarters in Barrow. In addition to the property receipts there are £85k of receipts from the sale of obsolete radio equipment, realised during the recent replacement of the airwave handsets. These will be drawn down to help finance the ESN radio replacement project.

4.2. The remainder of the capital receipts will be applied to the capital programme from 2023/24 as reserves and grants will all have been used to fund expenditure.

## 5. Supplementary information

### Attachments

Appendix 1	Capital Expenditure and Financing 10 years 2022/23 to 2031/32
Appendix 2	ICT Schemes
Appendix 3	Fleet Schemes
Appendix 4	Estates Schemes
Appendix 5	Other Schemes
Appendix 6	Analysis of the change in Capital Strategy between February 2021 and January 2022
Appendix 7	Capital Receipts Breakdown 2009/10 to 2021/22

## Capital Expenditure and Financing 10 years 2022/23 to 2031/32

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
ICT Schemes	2,361,763	4,530,120	4,892,291	3,768,847	2,388,379	6,248,985	2,066,298	1,955,588	2,341,451	5,257,998	2,466,162	35,916,119
Fleet Schemes	2,700,594	1,191,000	1,215,840	749,216	821,500	2,995,704	915,750	1,859,816	886,350	1,003,400	3,084,520	14,723,096
Estates Schemes	1,395,726	1,206,249	5,550,000	7,440,000	300,000	245,000	170,000	185,000	320,000	105,000	0	15,521,249
Other Schemes	299,426	291,719	617,829	267,829	200,000	200,000	350,000	350,000	43,000	0	0	2,320,378
<b>Total Capital Expenditure</b>	<b>6,757,509</b>	<b>7,219,088</b>	<b>12,275,960</b>	<b>12,225,892</b>	<b>3,709,879</b>	<b>9,689,689</b>	<b>3,502,048.30</b>	<b>4,350,403.56</b>	<b>3,590,800.90</b>	<b>6,366,398.06</b>	<b>5,550,682.39</b>	<b>68,480,841.77</b>
Capital Financing	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Capital Receipts	(84,800)	0	(1,182,217)	(380,864)	(105,997)	(3,113,091)	0	0	0	0	0	(4,782,169)
Revenue Contributions	(4,652,774)	(4,415,946)	(4,406,701)	(4,465,028)	(3,603,882)	(3,632,587)	(3,775,353)	(3,779,209)	(3,711,926)	(3,710,693)	(3,709,429)	(39,210,755)
Capital Grants	(1,999,935)	(2,203,142)	(1,687,042)	0	0	0	0	0	0	0	0	(3,890,184)
Capital Reserves	(20,000)	(600,000)	(3,380,000)	0	0	0	0	0	0	0	0	(3,980,000)
Borrowing	0	0	(1,620,000)	(7,380,000)	0	0	0	0	0	0	0	(9,000,000)
<b>Total Capital Financing</b>	<b>(6,757,509)</b>	<b>(7,219,088)</b>	<b>(12,275,960)</b>	<b>(12,225,892)</b>	<b>(3,709,879)</b>	<b>(6,745,678)</b>	<b>(3,775,353)</b>	<b>(3,779,209)</b>	<b>(3,711,926)</b>	<b>(3,710,693)</b>	<b>(3,709,429)</b>	<b>(60,863,108)</b>
<b>(Excess)/Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,944,011</b>	<b>(273,305)</b>	<b>571,194</b>	<b>(121,125)</b>	<b>2,655,705</b>	<b>1,841,253</b>	<b>7,617,734</b>

A more detailed analysis of capital expenditure is provided at Appendices 2-5.



## ICT Schemes

ICT Summary	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	447,864	1,287,545	698,084	1,163,579	643,628	446,621	698,538	661,125	881,714	450,871	406,609	7,338,314
ICT Core Hardware Replacement (003/004x)	957,534	2,015,546	998,150	764,110	1,043,719	1,234,347	1,490,748	1,547,009	991,478	1,272,254	1,625,325	12,982,687
ICT ESN Radio Replacement (Airwave)	264,275	382,420	69,200	200,000	588,000	4,452,778	0	0	189,540	3,740,750	742,500	10,365,188
ICT Core Infrastructure Replacement	0	96,094	285,000	0	0	0	0	0	0	0	0	381,094
ICT Infrastructure Solution Replacement (Projects)	692,090	1,748,514	1,841,857	1,641,158	113,033	115,239	222,488	277,081	765,620	124,503	126,934	6,976,426
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	0	0	0	(345,476)	(529,628)	(486,901)	(330,381)	(435,205)	(2,127,591)
General Prudent Slippage (linked to workloads and staffing levels)	0	(1,000,000)	1,000,000	0	0	0	0	0	0	0	0	0
<b>Total ICT Summary</b>	<b>2,361,763</b>	<b>4,530,120</b>	<b>4,892,291</b>	<b>3,768,847</b>	<b>2,388,379</b>	<b>6,248,985</b>	<b>2,066,298</b>	<b>1,955,588</b>	<b>2,341,451</b>	<b>5,257,998</b>	<b>2,466,162</b>	<b>35,916,119</b>

Status - The ICT schemes within the capital programme above consolidate a significant number of complex and interrelated projects. The status of schemes is subject to agreement between the Commissioner and Constabulary. It is recommended that delegated approval is given to the Joint Chief Finance Officer to agree the status of schemes on the basis of the following principles:

## Firm Schemes

- Schemes that are either routine cyclical upgrade of existing systems/hardware/software
- Schemes which have been approved by the Commissioner following submission of a business case/decision report

## Delegated Schemes

- Schemes agreed in principle by decision report, where the detail of the financial profile/procurement/implementation plans are still to be developed
- Schemes within the Joint Chief Finance Officer's virement authorisation limits for which there is a clear business case
- Schemes above the Joint Chief Finance Officer's virement authorisation limits, but which are nationally mandated and supported by a business case.

Schemes not meeting the principles for firm or delegated schemes will be classed as indicative and will require a business case or decision report to the Commissioner before approval is given to commence with the scheme. The status of schemes applies to the funding for the four years 2022/23 to 2025/26, covering the period for which the capital programme is fully funded.

## Fleet Schemes

Fleet Summary	Status	Number of Vehicles in Category	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Covert	Firm	14	139,062	26,000	92,820	114,400	29,680	91,908	50,600	101,920	125,400	32,480	100,418	765,626
Neighbourhood Policing	Firm	91	1,382,377	485,000	403,920	0	63,600	1,722,708	533,500	443,520	0	0	1,922,338	5,574,586
Specialist Vehicles	Firm	28	288,524	30,000	113,220	74,880	233,200	119,448	113,300	450,856	126,540	40,600	241,428	1,543,472
Dog Vehicles	Firm	10	297,759	0	0	0	74,200	297,864	0	0	0	81,200	366,744	820,008
Motor Cycles	Firm	8	0	0	0	0	149,460	0	0	0	0	17,400	0	166,860
Pool Cars	Firm	29	174,200	15,000	63,240	37,856	19,080	122,796	14,300	220,640	17,100	71,920	42,952	624,884
Protected personnel Carriers	Firm	9	0	240,000	0	0	0	129,600	0	201,600	0	278,400	0	849,600
Roads Policing Vehicles	Firm	20	239,391	40,000	306,000	312,000	195,040	367,200	110,000	224,000	551,760	162,400	0	2,268,400
Crime Command	Firm	39	30,000	0	198,900	112,320	57,240	112,320	33,000	0	0	278,400	92,040	884,220
Crime Scene Investigators	Firm	10	20,500	270,000	0	0	0	0	0	0	23,370	0	318,600	611,970
Garage	Firm	6	0	0	0	0	0	0	0	151,200	0	0	0	151,200
VIP	Firm	2	0	0	37,740	36,400	0	0	0	0	42,180	40,600	0	156,920
Above Strength Vehicles	Firm	29	0	0	0	0	0	0	0	0	0	0	0	0
Adaptations	Firm	0	128,781	0	0	0	0	0	0	0	0	0	0	0
Partnership Vehicles	Firm	14	0	85,000	0	61,360	0	31,860	61,050	66,080	0	0	0	305,350
<b>Total Fleet Summary</b>		<b>309</b>	<b>2,700,594</b>	<b>1,191,000</b>	<b>1,215,840</b>	<b>749,216</b>	<b>821,500</b>	<b>2,995,704</b>	<b>915,750</b>	<b>1,859,816</b>	<b>886,350</b>	<b>1,003,400</b>	<b>3,084,520</b>	<b>14,723,096</b>
<b>Number of Vehicles Replaced Each Year</b>			<b>109</b>	<b>32</b>	<b>45</b>	<b>29</b>	<b>30</b>	<b>99</b>	<b>29</b>	<b>54</b>	<b>21</b>	<b>39</b>	<b>97</b>	

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2022/23 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2022/23 to inform the status of the capital programme in future years.

## Estates Schemes

Estates Summary	Status	Yr 0 2021/22	Yr 1 2022/23	Yr 2 2023/24	Yr 3 2024/25	Yr 4 2025/26	Yr 5 2026/27	Yr 6 2027/28	Yr 7 2028/29	Yr 8 2029/30	Yr 9 2030/31	Yr 10 2031/32	Yr 1-10 Total
		£	£	£	£	£	£	£	£	£	£	£	£
<b>Existing Schemes</b>													
Roof Repairs - Kendal Police Station	Firm	0	56,249	0	0	0	120,000	0	0	25,000	0	0	201,249
Roof Repairs & Glazing - Durranhill		0	0	0	0	0	75,000	0	0	0	0	0	75,000
Police Headquarters HVAC		0	0	0	0	300,000	0	0	0	200,000	0	0	500,000
Barrow HVAC		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Comms Centre Cooling plant		0	0	0	0	0	0	0	0	70,000	0	0	70,000
UPS Durranhill	Firm	0	0	0	60,000	0	0	0	0	0	0	0	60,000
UPS HQ	Firm	17,923	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Kendal		0	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Barrow		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Garage Provision	Indicative	0	0	500,000	0	0	0	0	0	0	0	0	500,000
Durranhill CCTV system and cell call	Indicative	0	0	50,000	0	0	0	0	0	0	0	0	50,000
Kendal CCTV and Cell Call		0	0	0	0	0	0	50,000	0	0	0	0	50,000
Barrow CCTV camera replacement		0	0	0	0	0	0	0	35,000	0	0	0	35,000
West Estate	Indicative	20,000	600,000	5,000,000	7,380,000	0	0	0	0	0	0	0	12,980,000
HQ Static inverter		0	0	0	0	0	0	0	50,000	0	0	0	50,000
HQ window conservation		0	0	0	0	0	50,000	0	0	0	0	0	50,000
Learning and Development Centre life cycles		0	0	0	0	0	0	0	0	0	25,000	0	25,000
Gas suppression cylinder replacements	Firm	(2,197)	0	0	0	0	0	0	0	25,000	0	0	25,000
Kendal M&E plant		0	0	0	0	0	0	0	20,000	0	0	0	20,000
Kendal - yr 10 electrical and plant		0	0	0	0	0	0	0	0	0	50,000	0	50,000
Carlisle M&E plant (area 2)	Firm	0	60,000	0	0	0	0	0	20,000	0	0	0	80,000
Durranhill curtain walling life cycles		0	0	0	0	0	0	0	0	0	30,000	0	30,000
<b>Sub Total Existing Estates Schemes</b>		<b>35,726</b>	<b>716,249</b>	<b>5,550,000</b>	<b>7,440,000</b>	<b>300,000</b>	<b>245,000</b>	<b>170,000</b>	<b>185,000</b>	<b>320,000</b>	<b>105,000</b>	<b>0</b>	<b>15,031,249</b>
<b>New Estates Schemes 2022/23</b>													
Learning and Development - ground floor	Firm	30,000	290,000	0	0	0	0	0	0	0	0	0	290,000
PST - Occ Health	Firm	30,000	0	0	0	0	0	0	0	0	0	0	0
Dog Section	Firm	1,300,000	200,000	0	0	0	0	0	0	0	0	0	200,000
<b>Sub Total New Estates Schemes</b>		<b>1,360,000</b>	<b>490,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>490,000</b>
<b>Total Estates Schemes</b>		<b>1,395,726</b>	<b>1,206,249</b>	<b>5,550,000</b>	<b>7,440,000</b>	<b>300,000</b>	<b>245,000</b>	<b>170,000</b>	<b>185,000</b>	<b>320,000</b>	<b>105,000</b>	<b>0</b>	<b>15,521,249</b>

### Estates Scheme Status Recommendations\*

It is recommended that schemes to provide premises in the West of the county, the garage provision and the custody CCTV be agreed in principle as indicative schemes and subject to a business case being approved by the Commissioner.

\*scheme status applies to the financial profile between 2021/22 and 2024/25 only unless otherwise stated.

## Other Schemes

Other Schemes	Status	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	Total
		£	£	£	£	£	£	£	£	£	£	£	£
CCTV	1 Indicative	0	173,890	350,000	0	0	0	150,000	350,000	0	0	0	1,023,890
Taser CED migration (T60 package /T7 * 79)	Firm	67,829	67,829	67,829	67,829	0	0	0	0	0	0	0	203,488
X26 taser fleet replacement	2 Indicative	0	0	200,000	200,000	200,000	200,000	200,000	0	0	0	0	1,000,000
Glock Pistol Replacement	Firm	45,167	0	0	0	0	0	0	0	0	0	0	0
Portable Ballistic Protective Equipment		0	0	0	0	0	0	0	0	43,000	0	0	43,000
Laser Scanning	Firm	4,954	0	0	0	0	0	0	0	0	0	0	0
Barrow - custody CCTV upgrades (support digital roll out)	3 Indicative	0	50,000	0	0	0	0	0	0	0	0	0	50,000
Operation Uplift	Firm	181,475	0	0	0	0	0	0	0	0	0	0	0
<b>Total Other Schemes</b>		<b>299,426</b>	<b>291,719</b>	<b>617,829</b>	<b>267,829</b>	<b>200,000</b>	<b>200,000</b>	<b>350,000</b>	<b>350,000</b>	<b>43,000</b>	<b>0</b>	<b>0</b>	<b>2,320,378</b>

### Other Scheme Status Recommendations\*

1. It is recommended that the wholesale replacement of the CCTV system in 2022/23 and 2023/24 be subject to a business case.
2. It is recommended that the capital aspects of the taser replacement programme commencing in 2023/24 be subject to a business case.
3. It is recommended that the roll out of digital CCTV in custody be subject to a business case.

\*scheme status applies to the financial profile between 2021/22 and 2024/25 only unless otherwise stated.

## Analysis of the change in Capital Programme between February 2021 and the January 2022 proposal.

EXPENDITURE	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	1-5 Year TOTAL £
Capital Strategy - Approved (February 2021)	5,210,913	16,366,556	9,635,969	3,195,123	3,962,068	5,219,972	38,379,688
Capital Strategy - Proposed (December 2021)	6,757,509	7,219,088	12,275,960	12,225,892	3,709,879	9,689,689	45,120,509
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
<b>Difference by Type</b>							
- ICT Schemes	(330,776)	(2,191,156)	2,041,922	1,780,908	(514,129)	3,704,903	4,822,448
- Fleet Schemes	932,220	105,720	30,240	(147,968)	111,940	564,814	664,746
- Estates Schemes	1,145,726	(6,503,751)	(50,000)	7,130,000	(50,000)	0	526,249
- Other Schemes	(200,574)	(558,281)	617,829	267,829	200,000	200,000	727,378
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
<b>Explanation of the Difference by Type</b>							
<b>- ICT Schemes</b>							
2020/21 outturn	704,973	0	0	0	0	0	0
Slippage	(1,204,774)	905,879	0	0	(220,000)	220,000	905,879
Airwave	0	100,000	69,200	0	45,000	0	214,200
ESN	0	(2,381,401)	10,199	210,672	(554,864)	3,150,950	435,556
Revenue	(1,321,925)	599,078	(307,577)	(309,997)	(296,472)	(115,003)	(429,971)
Additional funding / approvals	421,600	(316,600)	0	0	0	0	(316,600)
Smartphones	0	0	350,000	350,000	0	0	700,000
RMS	0	1,000,000	1,000,000	1,000,000	0	0	3,000,000
CRF slippage and reprofile	(552,220)	101,887	(79,900)	530,233	0	0	552,220
Converged	784,000	(200,000)	0	0	0	0	(200,000)
Prudent Slippage & Savings	1,000,000	(2,000,000)	1,000,000	0	512,207	448,956	(38,837)
Budget Returned	(162,429)	0	0	0	0	0	0
<b>- Fleet Schemes</b>							
Qtr 4 Slippage	811,049	0	0	(110,000)	110,000	(7,400)	(7,400)
Slippage to 22/23	(85,000)	85,000	0	0	0	0	85,000
Expert Life Change	(15,330)	0	0	0	0	459,000	459,000
life doubled / replacement removed	0	0	0	(40,000)	0	0	(40,000)
Price Increases	181,501	42,000	52,000	24,000	8,000	112,300	238,300
TSU Conversion	40,000	0	0	0	0	0	0
Inflation	0	(21,280)	(21,760)	(21,968)	(6,060)	914	(70,154)
<b>- Estates Schemes</b>							
Roof Repairs - Kendal	0	56,249	0	0	0	0	56,249
Roof Repairs - Kennels	0	0	0	(250,000)	0	0	(250,000)
Gas suppression cylinder replacements	(2,197)	0	0	0	0	0	0
UPS HQ	17,923	0	0	0	0	0	0
Garage Provision	0	(500,000)	500,000	0	0	0	0
Durranhill CCTV system and cell call	0	0	50,000	0	(50,000)	0	0
West Resilience Flood Management	(230,000)	(6,550,000)	(600,000)	7,380,000	0	0	230,000
New Schemes	1,360,000	490,000	0	0	0	0	490,000
<b>- Other Schemes</b>							
CCTV	(150,000)	(176,110)	350,000	0	0	0	173,890
Curretn Taser Fleet Replacement	67,829	67,829	67,829	67,829	0	0	203,488
Future X26 taser fleet replacement	0	0	200,000	200,000	200,000	200,000	800,000
Glock Pistol Replacement	45,167	0	0	0	0	0	0
Laser Scanning	4,954	0	0	0	0	0	0
Barrow - custody CCTV	(50,000)	50,000	0	0	0	0	50,000
Operation Uplift	(118,525)	(500,000)	0	0	0	0	(500,000)
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
<b>Difference left to explain</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Property Disposals – Details of Sale Proceeds

Year	Premises Sold	Sale Proceeds £	Costs of Disposal £	Net Capital Receipts £
2021/22	Police House - 16 Hillswood Avenue	258,750	5,934	252,816
2020/21	There were no property sales	0	0	0
2019/20	There were no property sales	0	0	0
2018/19	Police House -39 Liddle Close Carlisle	159,000	2,546	156,454
2018/19	Ulverston Police Station	500,000	9,037	490,963
2017/18	Cleator Moor Police Station	105,000	1,939	103,061
2017/18	Barrow Police Station	450,000	10,361	439,639
2016/17	Police House - 21 Thornleigh Road	266,200	5,570	260,630
2016/17	Maryport Police Station	80,500	1,995	78,505
2015/16	Police House 11-12 The Green, Penrith	60,000	2,006	57,994
2015/16	Wigton Police Station	187,500	4,545	182,955
2015/16	Ambleside Police Station	321,500	6,131	315,369
2013/14	Dalton in Furness Police Station	121,000	2,756	118,244
2013/14	Keswick Police Station	327,000	0	327,000
2012/13	Kirkby Stephen Police Station & House	150,000	857	149,143
2012/13	Police House - 3 Centurians Walk, Carlisle	175,500	2,827	172,673
2012/13	Police House - 4 Allan Court, Workington	173,500	2,100	171,400
2012/13	Alston Police Station	166,000	1,123	164,877
2012/13	Ambleside Police Station	141,000	1,753	139,247
2012/13	Cockermouth Police Station	241,000	2,613	238,387
2012/13	Millom Police Station	45,600	1,644	43,956
2012/13	Milnthorpe Police Station	140,500	1,260	139,240
2012/13	Sedbergh Police Station	90,000	1,328	88,672
2011/12	Police House - Durdar	150,000	2,070	147,930
2011/12	Police House - 12 Derwent Drive Kendal	183,500	1,943	181,557
2011/12	Police House - 10 Clifton Court, Workington	125,000	1,320	123,680
2010/11	Police House - 52 Whitestiles, Seaton	115,500	1,924	113,576
2010/11	Police House - 6 Helsington Road, Kendal	216,000	2,668	213,332
2009/10	Police House - 3 Derwent Drive, Kendal	155,000	4,857	150,143
Please note there were no property disposals in 2014/15				0
<b>Total</b>		<b>5,104,550</b>	<b>83,109</b>	<b>5,021,441</b>



Public Accountability Conference  
16 February 2022  
Agenda Item No 08c

Joint Audit Committee  
16 March 2022  
Agenda Item No 12

## Office of the Police and Crime Commissioner Report

**Title: Borrowing, Treasury Management, Investment and MRP  
Strategies 2022/23 (including Prudential Indicators)**

Report of the Joint Chief Finance Officer

**Originating Officers: Michelle Bellis, Deputy Chief Finance Officer;  
Lorraine Holme, Financial Services Manager**

### Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.

These codes were originally issued in 2002, revised in 2009, 2011 and again in 2017. The TMSS presented here complies with the 2017 codes and accompanying guidance notes. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023. The TMSS also incorporates the Investment Strategy which is a requirement of the Ministry of Housing, Communities and Local Government's Investment (MHCLG) Investment Guidance 2018.

This report proposes a strategy for the financial year 2022/23.

Treasury Management in Local Government continues to be a highly important activity. The Police and Crime Commissioner (“The Commissioner”) adopts the CIPFA definition of Treasury Management which is as follows:

#### **Treasury Management Definition**

*‘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.’*

## **Recommendations**

The Commissioner is asked to:

1. Approve the Borrowing Strategy for 2022/23 as set out on pages 8-9
2. Approve the Investment Strategy for 2022/23 as set out on pages 10-13
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-16
4. Approve the other Prudential Indicators set out on pages 17 to 21
5. Approve the Minimum Revenue Provision Policy Statement for 2022/23 as set out on page 22
6. Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner’s website.
7. Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

The Joint Audit Committee are asked to review the Treasury Management Strategy Statement and Treasury Management Practices to be satisfied that controls are satisfactory and provide advice as appropriate to the Commissioner.





Peter McCall



**Borrowing, Treasury Management, Investment, and MRP Strategies 2022/23  
(Including Prudential Indicators)**

# Treasury Management Strategy Statement 2022/23

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## Key Messages

Approval of an Annual Treasury Management Strategy is a statutory requirement of the Commissioner.

This Strategy aims to provide the Commissioner with a low risk, yet suitably flexible, approach to Treasury management.

## General Principles

The Commissioner is required to approve an annual Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management, which also incorporates an Investment Strategy as required by the Local Government Act 2003 and which is prepared in accordance with the Ministry of Housing, Communities and Local Government's Investment Guidance 2018. Together, these cover the financing and investment strategy for the forthcoming financial year.

The Treasury Management Strategy has been prepared in line with the model guidance produced by Link Asset Services Ltd, who provide specialist treasury management advice to the Commissioner. It should however be noted that all treasury management decisions and activity are the responsibility of the Commissioner and any such references to the use of these advisors should be viewed in this context.

Treasury management activities involving, as they do, the investment of large sums of money and the generation of potentially significant interest earnings have inherent risks. The Commissioner 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 main risks to the Commissioner's treasury activities are outlined below:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Re-financing risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk.
- Fraud, error and corruption Risk

Details of the control measures the Commissioner has put in place to manage these risks are contained within the separate Treasury Management Practices (TMPs).

## Key Messages

The Commissioners priority for investments will **always** be ranked in the order of:



## General Principles (Continued)

The Commissioner 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. However, the high profile near failure of major banks in 2008 highlighted that this objective must be sought within a context of effective management of counter-party risk. Accordingly, the Commissioner will continue to search for optimum returns on investments, but at all times the **security** of the sums invested will be paramount. This is a cornerstone of the CIPFA Code of Treasury Management Practice which emphasises “**Security, Liquidity, Yield** in order of importance at all times”. The security of the sums invested is managed by tight controls over the schedules of approved counter-parties, which are continually reviewed to take account of changing circumstances, and by the setting of limits on individual and categories of investments as set out at **Appendix A**.

The strategy also takes into account the impact of treasury management activities on the Commissioner’s revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2022/23 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

The guidance under which this strategy is put forward comes from a variety of different places. Principally, however, the requirement to produce an annual Treasury Management Strategy is set out in the CIPFA Code of Practice on Treasury Management published in 2011, 2017 and recently updated in 2021. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) and the 2018 Ministry of Housing, Communities and Local Government’s Investment Guidance, to produce an investment strategy as part of the wider Treasury Strategy. This is set out below, starting at page 10. Finally, the Commissioner’s current treasury advisor’s Link Asset Services Ltd have provided some advice about possible future trends in interest rates and advice on best practice in relation to the format of the TMSS.

In accordance with The Code of Practice for Treasury Management, the Commissioner will approve the Annual TMSS, receive, a quarterly summary of treasury activity, a mid-year update on the strategy and an annual report after the close of the financial year.

## Key Messages

Scrutiny of the Commissioners treasury activities is the responsibility of the Joint Audit Committee, including:

- Quarterly Reports
- Year End Report
- Treasury Risk Management
- Review of Assurances

As a minimum a rolling 12-month cash flow forecast is maintained and is audited as part of the statutory accounts to support the principle that the Commissioner is operating as a 'going concern'

## General Principles (Continued)

The Joint Audit Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint Audit Committee terms of reference in relation to treasury management are:

- Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
- Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity.
- Review the treasury risk profile and adequacy of treasury risk management processes.
- Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

The MHCLG Guidance on investments states that publication of strategies is now formally recommended, the full suite of strategy documents will be published on the Commissioner's website once approved.

The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget. This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG Guidance.

## Treasury Management Cash Flow Forecast

Treasury Management activity is driven by the complex interaction of expenditure and income flows, but the core drivers within the Commissioner's balance sheet are the underlying need to borrow to finance its capital programme, as measured by the capital financing requirement (CFR), which is explored in detail on page 8 of this report, and the level of reserves and balances. In addition, day-to-day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner's level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner's strategy in determining exact borrowing and lending activity.

## Key Messages

Investment returns and borrowing rates are likely to remain low by historical standards during 2022/23 but to be on a gently rising trend over the next few years. However many factors can impact that forecast.

The Commissioner continues to utilise reserves in place of new borrowing to fund the capital programme.

## Treasury Management Cash Flow Forecast (Continued)

The estimated treasury position at 31st March 2022 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	19.157	13.063	5.125	2.241
Interest Receipts	0.002	0.010	0.010	0.010

The figures in the table above are based on the approval of the proposed revenue budget and capital programme presented to the Commissioner elsewhere on this agenda and are based on the interest rate assumptions as outlined on page 7 below. The estimate for interest receipts in 2022/23 is £10k (latest forecast for 2021/22 is £2k). The estimated receipts have been left at the minimal level of £10k as the timing of future external borrowing is not known and decisions regarding the end of the PFI contract are still to be made.

The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £20.97m at the start of the 2022/23 financial year. This includes £4.20m which is the capital value of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009. The capital programme paper elsewhere on this agenda (see item 08b) indicates that the Commissioner will need to borrow to deliver the agreed capital programme, specifically to provide a fit for purpose territorial policing HQ in the west of the county. This investment is still indicative and would be subject to a full business case decision process.

Under current market conditions, where short term interest receipts are forecast to remain low in the immediate future, and there are continuing general uncertainties over the credit worthiness of financial institutions, it is assumed that the most prudent borrowing strategy for the present is to meet the capital funding requirement from within internal resources. This has the effect of reducing the cash balances available for investment. Advice will continue to be sought from our treasury advisors as to the most opportune time and interest rate to undertake external borrowing.

## Key Messages

Inflation is expected to peak in April and the likely response will be the next base rate increase

Interest Rates are forecast to rise steadily over the medium term.

## Treasury Management Interest Rate Forecast

- The GDP in October rose by a disappointing 0.1% month on month which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November.
- The CPI inflation figure for November spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply - gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies.
- The labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30th September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared - unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.

These indicators were enough to give the Monetary Policy Committee (MPC) the assurance that it could press ahead to raise Bank Rate at this December meeting – a vote of 8-1 saw it rise by 0.15% from 0.10% to 0.25%. The next increase in Bank Rate was originally predicted to be in February or May, dependent on how severe an impact there is from Omicron. There were no January lockdowns so with inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022. However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth. The Commissioners advisors, Link Asset Services have added 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate, as shown in the table below, but the actual timings in each year is difficult to predict.

Base Rate Estimates	2021/22	2022/23	2023/24	2024/25	2025/26
Quarter 1	0.10%	0.25%	0.75%	1.00%	1.25%
Quarter 2	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 3	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 4	0.25%	0.50%	0.75%	1.00%	1.25%

## Key Messages

The PCC has an increasing Capital Financing Requirement due to the capital programme, but has modest investments, and will therefore need to borrow in the near future.

## Borrowing Strategy

### Long Term Borrowing

The Commissioner's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR), which is one of the Prudential Indicators and represents the cumulative capital expenditure of the Commissioner that has not been financed from other sources such as capital receipts, capital grants, revenue contributions or reserves. To ensure that this expenditure will ultimately be financed, authorities are required to make a provision from their revenue accounts each year for the repayment of debt. This sum known as the Minimum Revenue Provision (MRP) is intended to cover the principal repayments of any loan over the expected life of a capital asset. The CFR together with Usable Reserves, are the core drivers of the Commissioner's Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the Commissioner must ensure that in the medium term, net debt will only be for capital purposes. Therefore, the Commissioner must ensure that except in the short term, net debt does not exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. In compliance with this requirement the Commissioner does not currently intend to borrow in advance of spending need.

The table below shows the Commissioner's projected capital financing requirement for 2022/23 and beyond.

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
<b>Balance C/Fwd</b>	<b>21.60</b>	<b>20.97</b>	<b>20.32</b>	<b>21.26</b>	<b>27.93</b>	<b>27.00</b>

The above table shows only capital expenditure that is required to be financed from borrowing. The full capital programme and associated financing is reported in summary within the capital programme elsewhere on the agenda (see item 08b).



## Key Messages

Diversification of investments continues to provide a level of liquid cash that is suitable for the Commissioners expenditure profile whilst total investment balances remain high. This will continue to be monitored as levels of investments fall and if necessary, a minimum level of liquid cash to be maintained will be set.

Short term borrowing from other Local Authorities may be needed in the future to manage short term cash flow shortfalls.

## Borrowing Strategy (Continued)

The Commissioner is not expected to have any external borrowing at the start of 2022/23. Given that the CFR is forecast to be £20.97m this effectively means that the Commissioner will be funding over £16.77m of capital spend from internal resources (CFR £20.97m less £4.20m in relation to the PFI).

Currently, there is a significant differential between investment rates at 0.25% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 2.4%+ pa. Consequently, at this juncture, undertaking long term borrowing is likely to have a prohibitively high short-term cost to the revenue account. However, such funding decisions may commit the Commissioner to costs for many years into the future and it is therefore critical that a long-term view is taken regarding the timing of such transactions.

It should also be recognised that by funding internally, there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the Commissioner, in conjunction with its treasury advisor, will continue to monitor market conditions and interest rate prospects on an on-going basis, in the context of the Commissioner's capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

The Commissioner's predecessors had previously raised all of its long-term borrowing from the PWLB (Public Works Loans Board) but other sources of finance are now available and being investigated, such as local authority loans and bank loans, that may be available at more favourable rates.

### Short Term Borrowing

Short term loans will be used to manage day to day movements in cash balances, or over a short-term period to enable aggregation of existing deposits into longer and more sustainable investment sums. Short term borrowing would probably be from another Local Authority.

## Key Messages

The Investment Strategy for 2022/23 remains broadly the same as in previous years as there has been little change in the markets or counterparties.

The updated investment guidance emphasises “Security, Liquidity, Yield in order of importance at all times”.

The appropriate balance between risk and return is sought but with returns so low there is little to be gained from exposing the Commissioner to extra risk.

## Investment Strategy

Local Authorities (which include the Commissioner) invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

The Local Government Act 2003, Section 15(1) (a) requires the Commissioner to approve an investment strategy which must also meet the requirement in the statutory investment guidance issued by the Ministry of Housing, Communities and Local Government in January 2018. The Commissioner does not currently have, and does not intend to invest in, service investments or commercial investments so the detail below focuses on a Treasury Management Investment Strategy.

The CIPFA Code requires funds to be invested prudently, and to have regard for:



The generation of yield is distinct from these prudential objectives. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The objective when investing surpluses is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim would be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

In the past the treasury management investment strategy has operated criteria based on credit ratings to determine the size and duration of investments it is willing to place with particular counterparties. The credit worthiness of counterparties is reviewed on an ongoing basis in conjunction with the Commissioner’s treasury advisors.

## Key Messages

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the commissioner applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the Long Term ratings.

## Investment Strategy (Continued)

The Commissioner holds significant balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Commissioner's investment balance has ranged between £5.87m and £34.17m. The larger sum was due to the receipt in July 2021 of £21.07m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2022/23 are forecast to slowly reduce as expenditure on large capital schemes continues. It is anticipated that, at the peak, when the pensions grant is received in July, balances for investment could approach £31m.

**Credit Rating** - Investment decisions are made by reference to the lowest published long-term credit rating from credit agencies such as, Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In addition to credit ratings, the Commissioner and its advisors, select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Credit default swap prices (a CDS is a financial derivative or contract that allows an investor to "swap" or offset credit risk with that of another investor)
- Sovereign support mechanisms
- Share prices
- Corporate developments, news, articles, market sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

The investment strategy for 2015/16 was opened up slightly to include some additional classes of investment to allow more flexibility and diversification. The strategy for 2022/23 remains the same. The decision to enter into an approved class of investment is delegated to the Joint Chief Finance Officer. The strategy allows for investments in pooled funds such as money market funds or property funds. The use of property funds would further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. However, given the current economic uncertainty arising from Covid 19 recovery it is unlikely that they will be pursued.

A full explanation of each class of asset is provided in **Appendix A** together with a schedule of the limits that will be applied.

## Key Messages

The Joint Chief Finance Officer (subject with consultation with the Commissioner) will be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

No plans to use derivatives – this would require explicit approval.

## Investment Strategy (Continued)

The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and his advisors will continuously monitor corporate developments and market sentiment with regards to counterparties and will amend the approved counterparty list and lending criteria where necessary. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy. It is proposed to continue the policy, adopted in 2017/18 that the Joint Chief Finance Officer, subject to consultation with the Commissioner, be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

The Joint Audit Committee will be updated on any changes to policy. The performance of the Commissioner's treasury advisors and quality of advice provided is evaluated prior to the triennial renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

### The use of Financial Instruments for the Management of Risks

Currently, Local Authorities (including PCC's) legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit.

In the absence of any explicit legal power to do so, the Commissioner has no plans to use derivatives during 2022/23. Should this position change, the Commissioner may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require explicit approval. A derivative is a financial security with a value that is reliant upon or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties, and the derivative derives its price from fluctuations in the underlying asset.

### Liquidity of investments

The investment strategy must lay down the principles which are to be used in determining the amount of funds which can prudently be committed for more than one year i.e. what MHCLG's defines as a long-term investment.

## Key Messages

The cash flow forecast is maintained for a minimum rolling 12 months. This allows assessment of the ability to invest longer term and identifies areas where short term borrowing may be required.

## Investment Strategy (Continued)

The Financial Services team uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet his financial commitments. For the Commissioner, the total of investments over one year in duration are limited to £2m with a maximum duration of three years. This policy balances the desire to maximise investment returns, with the need to maintain the liquidity of funds.

Under current market conditions there is still little opportunity to generate significant additional investment income by investing in longer time periods over one year. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2022/23 amounts to £10k (£10k 2021/22) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit Committee as background information to provide guidance and support when undertaking scrutiny of Treasury Management procedures.

## Key Messages

The 'Treasury Management Practices' statement is updated for each year, scrutinised by the Joint Audit Committee and published on the Commissioner's website alongside this strategy.

## Treasury Risk and Treasury Management Practices

The Commissioner's approach to risk is to seek optimum returns on invested sums, taking into account at all times the paramount security of the investment. The CIPFA Code of Practice and Treasury Management Practices sets out in some detail defined treasury risks and how those risks are managed on a day to day basis. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). As outlined above, the Treasury Management Code and Prudential Code were updated and additional guidance notes have now been received. The TMP's have been updated. The guidance from CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- Performance Management
- Decision Making and Analysis
- Approved Instruments
- Organisation, Segregation of duties and dealing arrangements
- Reporting and Management Information requirements
- Budgeting, Accounting and Audit
- Cash and cash flow management
- Money laundering
- Training & Qualifications
- Use of external service providers
- Corporate Governance

Treasury Management is a specialised and potentially risky activity, which is currently managed on a day-to-day basis by the Financial Services Team under authorisation from the Joint Chief Finance Officer as part of a shared service arrangement for the provision of financial services. The training needs of treasury management staff to ensure that they have appropriate skills and expertise to effectively undertake treasury management responsibilities is addressed on an ongoing basis. Specific guidance on the content of TMPs is contained within CIPFA's revised code of Practice for Treasury Management. Accordingly, the TMPs have been reviewed in detail and where necessary minor amendments have been made to bring the TMPs into line with The Code.

The PCC currently has no external debt and does therefore not need to set limits on the maturity of debt in each period.

## Treasury Management Prudential Indicators

The key objectives of The Code are to ensure, within a clear framework, that Capital investment plans are affordable, prudent and sustainable (or to highlight, in exceptional cases, that there is a danger this will not be achieved so that the Commissioner can take remedial action). To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out the Indicators that must be used. The indicators required by The Code are designed purely to support local decision making and are specifically not designed to represent comparative performance indicators.

The treasury management Indicators are not targets to be aimed at but are instead limits within which the treasury management policies of the Commissioner are deemed prudent. These cover three aspects:

**1. Maturity Structure of Borrowing** - It is recommended that upper and lower limits for the maturity structure of borrowings are calculated as follows:

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	100.00	0
12 months and within 24 months	100.00	0
24 months and within 5 years	100.00	0
5 years and within 10years	100.00	0
10 years and above	100.00	0

This indicator is primarily applicable to organisations, which have undertaken significant levels of borrowing to finance their capital programmes in which case it is prudent to spread the profile of repayments to safeguard against fluctuations of interest payments arising from having to refinance a large proportion of the debt portfolio at any point in time. During 2012/13 the Commissioner repaid all outstanding external borrowing and as a result there is currently no requirement to apply stringent limits to the maturity profile of existing debt.

Treasury Management Prudential Indicators (Continued)

2. **Principal sums invested for periods longer than a year** – The purpose of this indicator is to contain the Commissioner’s exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or losses by seeking early repayment of its investments.

Price Risk Indicator	2021/22	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond one year	£2m	£2m	£2m	£2m	£2m

3. **Exposure to interest rate changes** - The 2017 code encourages Authorities to define their own ‘Liability Benchmark’ which will provide a basis for developing a strategy for managing interest rate risk. The new 2021 code makes this mandatory from 01 April 2023. On the basis that Link Asset Services Ltd are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the ‘cost of carry’, development of a liability benchmark at this point would not provide added value. However, the Commissioner will adhere to the code from 01 April and produce the liability benchmark.

Setting, Revising, Monitoring and Reporting

Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under The Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference.

Compliance with the indicators will be presented to the PCC Public Accountability Conference and the Joint Audit Committee in the quarterly Treasury Activities report.



## Other Prudential Indicators 2022/23

As per the 2017 CIPFA Prudential Code for Capital Finance (re-affirmed in the 2021 code) and the accompanying guidance notes the Commissioner is required to produce a number of indicators to assist understanding and to evaluate the prudence and affordability of the capital expenditure plans and the borrowing and investment activities undertaken in support of this.

### Capital Expenditure and Capital Financing

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital Expenditure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Receipts	0.00	0.08	0.00	1.18	0.38	0.11
Government Grants	0.07	2.00	2.20	1.69	0.00	0.00
Revenue Contributions	2.74	4.68	5.02	7.79	4.47	3.60
<b>Total Financing</b>	<b>2.81</b>	<b>6.76</b>	<b>7.22</b>	<b>10.66</b>	<b>4.85</b>	<b>3.71</b>
Borrowing	0.00	0.00	0.00	1.62	7.38	0.00
<b>Total Funding</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1.62</b>	<b>7.38</b>	<b>0.00</b>
<b>Total Financing and Funding</b>	<b>2.81</b>	<b>6.76</b>	<b>7.22</b>	<b>12.28</b>	<b>12.23</b>	<b>3.71</b>

## Key Messages

Capital Finance Requirement –  
‘The mortgage you are yet to  
take’

Minimum Revenue Provision –  
‘Annual Mortgage repayments’

The Authorised Limit is a  
statutory limit (Local  
Government Act 2003) above  
which the Commissioner has no  
authority to borrow.

## Other Prudential Indicators 2022/23 (Continued)

### Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce with the Minimum Revenue Provision (MRP) made each year from the revenue budgets.

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
<b>Balance C/Fwd</b>	<b>21.60</b>	<b>20.97</b>	<b>20.32</b>	<b>21.26</b>	<b>27.93</b>	<b>27.00</b>

### Authorised Limit

The represents a control on the maximum level of external debt. Whilst not desired it could be afforded by the authority in the short term but is not sustainable in the longer term. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

Authorised Limit for External Debt	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
External Borrowing	23.70	23.28	22.86	24.06	31.02	30.43
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
<b>Total Authorised Limit</b>	<b>28.10</b>	<b>27.47</b>	<b>26.82</b>	<b>27.76</b>	<b>34.43</b>	<b>33.50</b>

## Key Messages

The Operational Boundary limit is not an absolute limit of external debt and may be exceeded temporarily.

Currently the Commissioner has no external borrowing.

## Other Prudential Indicators 2022/23 (Continued)

### Operational Boundary

The Operational Boundary is a limit beyond which external debt is not normally expected to exceed. This limit is not an absolute limit but it reflects the expectations of the level at which external debt is not normally expected to exceed.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together. Consistent with the Authorised Limit, the Joint Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long-term Liabilities. Any such changes will be reported to the Commissioner and the Joint Audit Committee meeting following the change.

Operational Boundary for External Debt	2020/21 £m	2021/22 £m	2021/22 £m	2022/23 £m	2024/25 £m	2025/26 £m
External Borrowing	22.20	21.78	21.36	22.56	29.52	28.93
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
Total Operational Boundary	26.60	25.97	25.32	26.26	32.93	32.00

### Actual External Debt

The Commissioner's actual external debt as at 31 March 2021 will be £4.20m, comprising only of other long-term liabilities of £4.20m in relation to the PFI. It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing. It should be noted that all previous external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

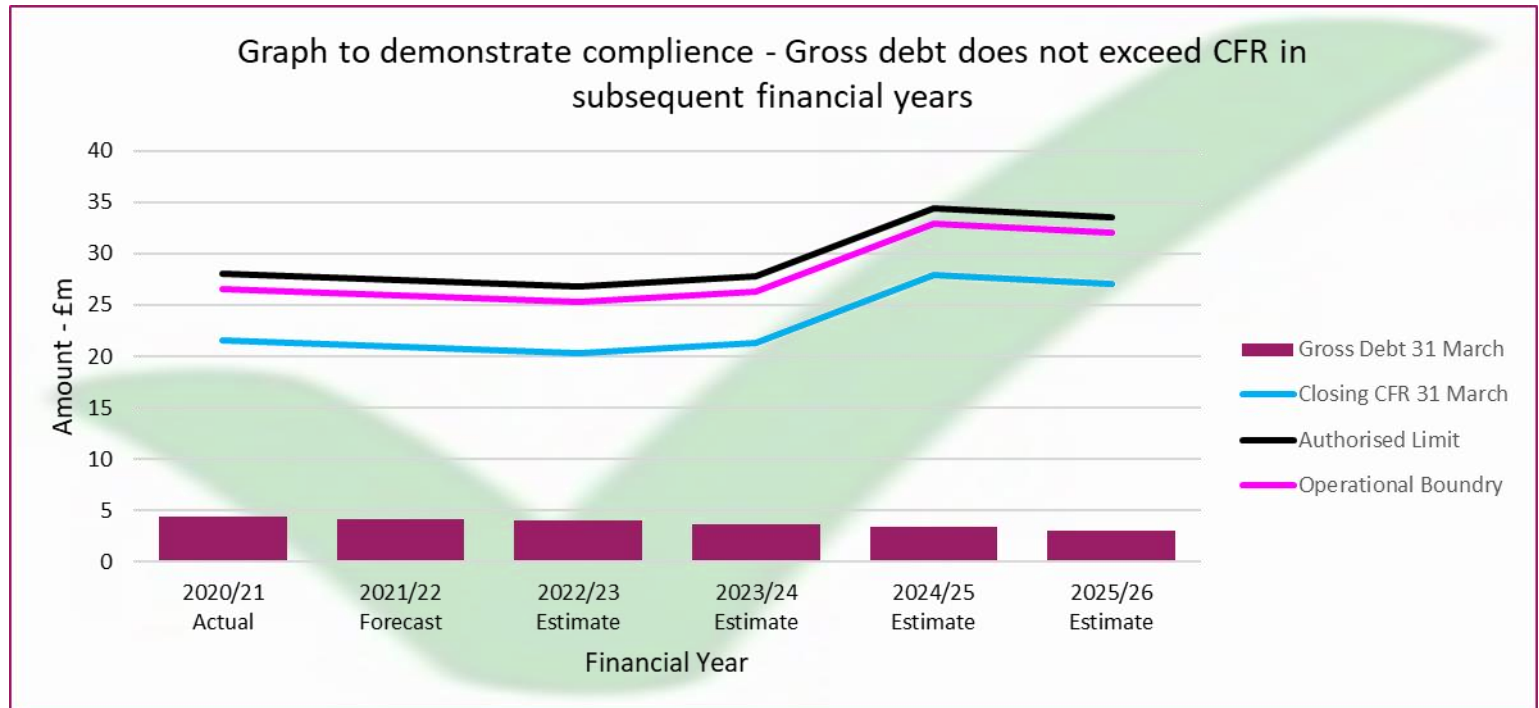
**Other Prudential Indicators 2022/23 (Continued)**

**Gross Debt and the Capital Financing Requirement**

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. Gross debt, except in the short term, should not exceed CFR in the preceding year plus the estimates for CFR for the three subsequent years.

Gross Debt and Capital financing requirement	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Closing CFR 31 March	21.60	20.97	20.32	21.26	27.93	27.00
Gross Debt 31 March	4.40	4.20	3.96	3.70	3.40	3.06

Using the figures from the above stated indicators the graph below demonstrates compliance as gross debt remains below CFR, authorised and operational limits for all years presented:



## Other Prudential Indicators 2022/23 (Continued)

### Ratio of financing costs

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income. The Commissioner's financing costs can be both positive and negative dependent on the relative level of interest receipts and payments.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, budget, budget proposal and medium-term financial forecast. These figures are purely indicative and are in no way meant to indicate planned increases in funding from Council Tax.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93
<b>Financing Costs</b>	<b>0.59</b>	<b>0.62</b>	<b>0.64</b>	<b>0.67</b>	<b>0.70</b>	<b>0.92</b>
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%

## Key Messages

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

In relation to the commissioner this would be over 50 years as borrowing is only used to finance Land and Building schemes.

Calculation will be based on Option 1 for pre 2008/9 debt and option 3 thereafter.

The Commissioner is also permitted to make additional voluntary payments if required (voluntary revenue provision VRP) although there are no plans to make any in the medium-term forecasts.

## Annual MRP Statement for 2022/23

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on authorities to make a prudent provision for debt redemption, this is known as the Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the Authority to “have regard” to The Ministry of Housing, Communities and Local Government’s Guidance on Minimum Revenue Provision most recently issued in 2018. This sum known as the MRP is intended to cover the principal repayments of any loan over the expected life of a capital asset.

The Ministry of Housing, Communities and Local Government’s Guidance recommends that before the start of the financial year, The Commissioner approves a statement of MRP policy for the forthcoming financial year. This is now by agreement encompassed within the TMSS. The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure, which gave rise to the debt, provides benefits.

The four options available for calculating MRP are set out below:

- Option 1 – Regulatory Method based on 4% of the CFR after technical adjustments.
- Option 2 – CFR Method, based on 4% of the CFR with no technical adjustments.
- Option 3 – Asset Life Method, spread over the life of the asset being financed.
- Option 4 – Depreciation Method, based on the period over which the asset being financed is depreciated.

It is proposed that The Commissioner’s MRP policy for 2022/23 is unchanged from that of 2021/22 and that The Commissioner utilises option 1 for all borrowing incurred prior to the 1st April 2008 and option 3 for all borrowing undertaken from 2008/09 onwards, irrespective of whether this is against supported or unsupported expenditure. This policy establishes a link between the period over which the MRP is charged and the life of the asset for which borrowing has been undertaken. It is proposed that a fixed instalment method is used to align to the Commissioner’s straight-line depreciation policy. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 accounting requirements will match the annual principal repayment for the associated deferred liability. This will not result in an additional charge to the Commissioner’s revenue budget as this is part of the capital repayment element of the PFI unitary charge. There have been some additional voluntary contributions of MRP made in previous years that are available to reduce the revenue charges in later years. No such overpayments or withdrawals are planned for 2022/23.

## Counterparty Selection Criteria and Approved Counterparties

The lending criteria set out below are designed to ensure that, in accordance with The Code of Practice, the security of the funds invested is more important than maximising the return on investments. Following consultation with the Commissioner's treasury advisors there are no amendments to the criteria used in determining approved investment counterparties for 2022/23 compared to those in operation for 2021/22.

### Counterparty Selection Criteria

The agreed changes to the selection criteria for investment counterparties for 2015/16 included changes to the investment categories, a reduction in the maximum amount and duration lengths for investments. This was to encourage diversification and to increase the security of those funds invested. These principles apply to the 2022/23 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.

The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd who provide timely updates and advice on the standing of counterparties. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy and at the time when individual investment decisions are made. If this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit Committee will be advised through the quarterly activities report.

The approved investment counterparties for the 2022/23 investment strategy are summarised as follows:

Category	Description	Comments
Category 1	Banks Unsecured	Includes building societies
Category 2	Banks Secured	Includes building societies
Category 3	Government	Includes other Local Authorities
Category 4	Registered Providers	Includes providers of social housing e.g. Housing Associations
Category 5	Pooled Funds	Includes Money Market Funds and property funds

A more detailed explanation of each of these counter party groupings is provided in Schedule B (page 26).

## Key Messages

Whilst these limits also apply to the Commissioners own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment limit of £1m will apply in such circumstances

Changes to accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date charged to the Statement of Comprehensive Income and expenditure Account. Such instruments are not currently key to this strategy.

### Counterparty Groupings / Limits

The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in Schedule A (page 25). The limits are based on a percentage of the potential maximum sums available for investment during the year of up to £40m. The counterparty limits for 2022/23 are the same as the limits for 2021/22. Pooled funds are in essence the same as AAA money market funds but they require 3 days' notice for the return of our funds. This slight reduction in cash flow is rewarded by a slightly increased interest rate. Link Asset Services Ltd suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

### Description of Credit Ratings

As outlined above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd.



## Key Messages

The UK Government is considered the safest place to invest as it has never defaulted and therefore minimum credit ratings do not apply.

The Commissioner has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA.

All investments are Sterling. Therefore, the Commissioner is not exposed to any foreign exchange / currency risk.

## Schedule A – Counterparty Groupings and Associated Limits

Investment Limits						
Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
<u>Category Limit 2020/21</u>	<i>Amount</i>	<i>£20m</i>	<i>£20m</i>	<i>Unlimited</i>	<i>£10m</i>	<i>£20m</i>
	<i>Duration</i>					
<u>Individual Institution/Group Limits</u>						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (Pooled funds are generally not rated but the diversification of funds equate to AAA credit rating)
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2022/23 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined on page 23 above, counterparty credit rating is not the only factor taken into consideration at the time of placing investments.

The maximum of all investments with outstanding maturities greater than one year will be £2m.

## Key Messages

The Commissioners priority for investments will **always** be ranked in the order of



## Schedule B – Explanation of Counterparty Groupings

### Class of Investment

**Category 1 - Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Category 2 - Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Category 3 - Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Category 4 - Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Category 5 - Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.