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Office of the Police, Fire and Crime Commissioner Report

Title: Borrowing, Treasury Management, Investment and MRP Strategies 2025/26 (including Prudential Indicators)

Report of the Constabulary Chief Finance Officer and PFCC Chief Finance Officer

Originating Officers: Sarah Walker, Financial Services Manager;
Lorraine Holme, Group Accountant.

Purpose of the Report

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

These codes were originally issued in 2002, revised in 2009, 2011, 2017, and again in 2021. The TMSS presented here complies with the 2021 codes and accompanying guidance notes. The TMSS also incorporates the Investment Strategy which is a requirement of the Ministry of Housing, Communities and Local Government's (MHCLG) (Previously Department for Levelling Up, Housing & Communities) Investment Guidance 2018.

This report proposes a strategy for the financial year 2025/26.

Treasury Management in Local Government continues to be a highly important activity. The Police, Fire 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 2025/26 as set out on pages 8-9.
2. Approve the Investment Strategy for 2025/26 as set out on pages 10-13.
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-17.
4. Approve the other Prudential Indicators set out on pages 17 to 21.
5. Approve the Minimum Revenue Provision Policy Statement for 2025/26 as set out on pages 22-23.
6. Note that the detailed Treasury Management Practices (TMPs) are currently being reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website. The updated TMPs will be provided at the Joint Audit Committee in March.
7. Delegate to the PFCC 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.

DAVID ALLEN

CUMBRIA'S POLICE, FIRE AND CRIME COMMISSIONER

Borrowing, Treasury Management, Investment, and MRP Strategies 2025/26
(Including Prudential Indicators)

Treasury Management Strategy Statement 2025/26

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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 Treasury Services Ltd, who provide specialist treasury management advice to the Commissioner. However, it should 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 and 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 Commissioner’s 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 counterparty 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 counterparties, 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 and Constabulary’s revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2025/26 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 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 (MHCLG) 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 treasury advisors, Link Treasury 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 Commissioner's 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 outgoing 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 have most likely peaked, they started to fall in 2024 and further rate cuts are expected through 2025. However, many factors can impact that forecast.

The availability of reserves is declining and a requirement to borrow to fund the capital programme is anticipated.

Treasury Management Cash Flow Forecast (Continued)

The estimated treasury position at 31st March 2025 and for the following financial years are summarised below:

Estimated Treasury Position	Forecast 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m	Estimate 2028/29 £m
External Borrowing	0.000	0.000	0.000	0.000	0.000
Interest Payments	0.000	0.000	0.000	0.000	0.000
Investments (**Average**)	22.711	22.039	17.898	18.286	18.286
Interest Receipts	1.144	1.015	0.660	0.640	0.640

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 2025/26 is £1.015m (latest forecast for 2024/25 is £1.144m). Interest receipts are higher this year due to slippage of the capital programme and higher interest rates. The timing of future external borrowing is currently not known and negotiations regarding the exit 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 £21.089m at the start of the 2025/26 financial year. This includes £3.402m 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.

Under current market conditions, where short term interest rate forecasts are frequently changing, and there are continuing general uncertainties over the creditworthiness 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

Core CPI inflation has risen to 3.5% during 2024 and is above the 2% target. The Bank of England forecast inflation will not fall to 2% until the end of 2025.

The Bank Rate is forecast to steadily reduce in 2025, with further reductions expected during 2026.

Treasury Management Interest Rate Forecast

- GDP fell by 0.1% m/m in October with a 0.1% month on month rebound in November, the economy has a bit less momentum than most economists previously thought and therefore a real risk remains to the economy contracting in Quarter 4 as a whole.
- UK CPI fell from 2.6% in November to 2.5% for December. Both services and core inflation are currently at rates clearly above those with the 2.0% target and are moving in the wrong direction, there isn't much downward momentum. The Bank of England forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.
- The latest forecast, updated on 11th November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

The Monetary Policy Committee (MPC) has reduced the Bank Rate by 50bps over the past twelve months, taking rates to 4.75%. At the December meeting a 6-3 majority saw it remain at 4.75%, with two members preferring to reduce the rate by 0.25%. The Committee continues to consider a range of cases for how the past global shocks that drove up inflation may unwind, and therefore how persistent domestic inflationary pressures may be. The MPC is also monitoring the impact on growth and inflationary pressures from the measures announced in the Autumn Budget, and from geopolitical tensions and trade policy uncertainty. These developments have generated additional uncertainties around the economic outlook.

Base Rate Estimates	2024/25	2025/26	2026/27	2027/28
Quarter 1	5.25%	4.50%	3.75%	3.50%
Quarter 2	5.25%	4.25%	3.75%	3.50%
Quarter 3	4.75%	4.00%	3.75%	3.50%
Quarter 4	4.75%	4.00%	3.50%	3.50%

Key Messages

The Commissioner has an increasing Capital Financing Requirement due to the capital programme but has modest investments (after deducting the pension grant receipt), 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, however 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 2025/26 and beyond.

Capital Financing Requirement	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Balance B/fwd	21.468	20.799	21.090	24.278	28.346
Plus Capital Expenditure financed from borrowing	0.012	1.027	4.086	5.447	4.615
Less MRP for Debt Redemption	(0.681)	(0.737)	(0.899)	(1.380)	(2.050)
Balance C/Fwd	**20.799**	**21.089**	**24.277**	**28.345**	**30.911**

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 to cover the Commissioner's 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 2025/26. Given that the CFR is forecast to be £24.277m by the end of 2025/26, this effectively means that the Commissioner will be funding over £21.213m of capital spend from internal resources (CFR £24.277m less £3.064m in relation to the PFI).

Bank Rate rises over the recent period have continued to push up the cost of long-term finance to over 5%. Borrowing rates are expected to start falling during 2025 and to continue over the medium term. Consequently, undertaking long-term borrowing at this time is likely to fix higher costs into the revenue account and commit the Commissioner to costs for many years in the future. It is 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 advisors, will continue to monitor market conditions and interest rate prospects on an ongoing 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.

<u>Short Term Borrowing</u>

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 2025/26 remains broadly the same as in previous years as there has been little change in the markets or counterparties but is presented in line with the Link Treasury Services (treasury advisors) methodology.

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

The appropriate balance between risk and return is sought.

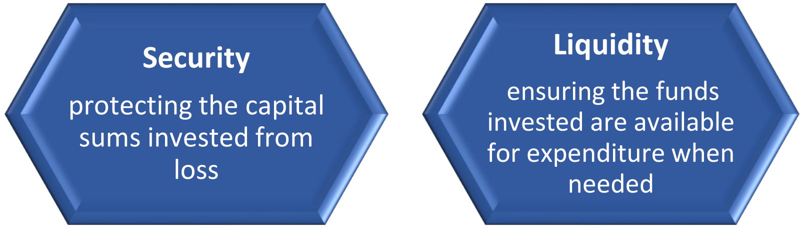
Investment Strategy

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 MHCLG 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.

The treasury management investment strategy operates 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 2024/25, the Commissioner's investment balance has ranged between £5.126m and £36.859m. The larger sum was due to the receipt in July 2024 of £16.520m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2025/26 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 £29.000m.

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 2025/26 remains principally the same, however, the methodology used in applying the matrix for the placement of investments will be fully aligned with the Link Treasury Services methodology. A full explanation of each class of asset and the creditworthiness policy is provided in **Appendix A** together with a schedule of the limits that will be applied.

The decision to enter into an approved class of investment is delegated to the PFCC Chief Finance Officer. Lending Limits (amounts & maturity) for each counterparty will be set through applying the matrix table. Transaction limits are also set for each type of investment.

Key Messages

The PFCC Chief Finance Officer (subject to 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)

Classes of investment are also categorised under two types; specified and non-specified, the limits for these are set in the TMP's. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, even if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

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 PFCC 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 the PFCC'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 2025/26. 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

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)

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 defines as a long-term investment. (The commissioner has set this limit at £2m).

The Financial Services team use 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 2025/26 amounts to £1.015m (£1.144m 2024/25) 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 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 and 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 PFCC 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 amendments have been made to bring the TMPs into line with The Code.

Key Messages

The PFCC 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%	0.00
12 months and within 24 months	100%	0.00
24 months and within 5 years	100%	0.00
5 years and within 10 years	100%	0.00
10 years and above	100%	0.00

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.

Key Messages

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

Treasury Management Prudential Indicators (Continued)

2. Principal sums invested for periods longer than a year

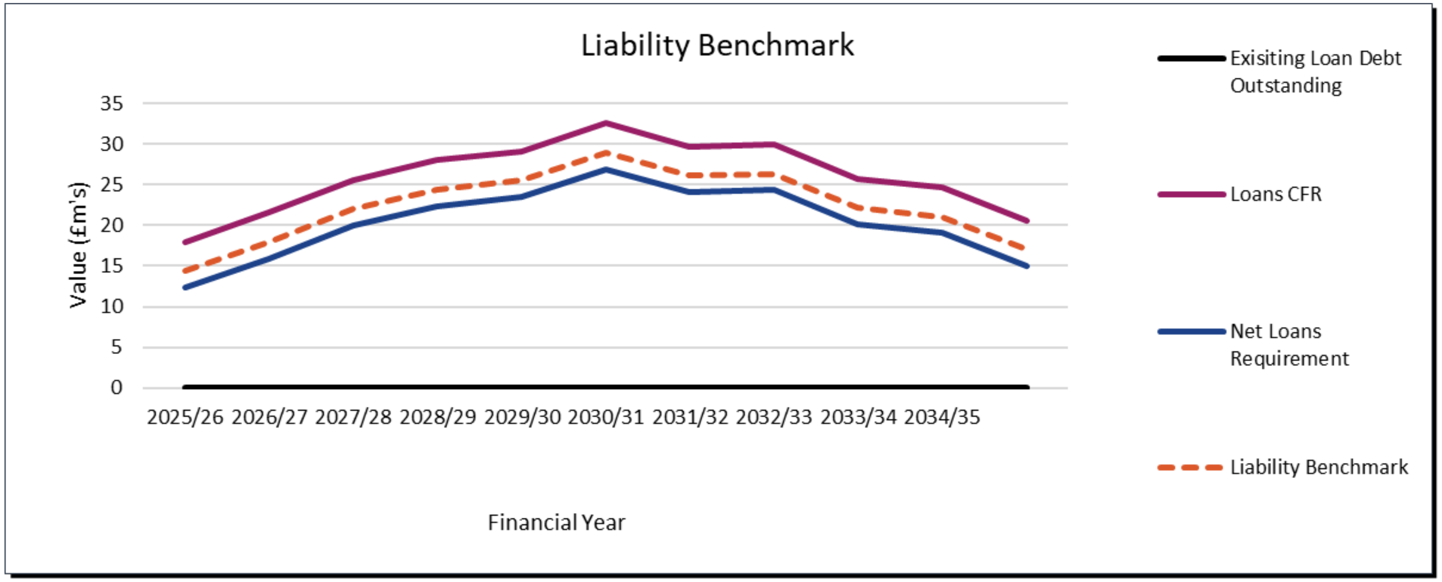
The purpose of this indicator is to contain the Commissioner's exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or losses by seeking early repayment of its investments.

Price Risk Indicator	2023/24	2024/25	2025/26	2026/27	2027/28
Limit on principal invested beyond one year	£2.000m	£2.000m	£2.000m	£2.000m	£2.000m

3. Liability Benchmark

The 2021 code requires Authorities to define their own 'Liability Benchmark' which looks at the net management of the PFCC's overall treasury position. The aim of the indicator is to support in the management of treasury risks, namely refinancing risk, interest rate and credit risk. It does this through profiling the borrowing portfolio close to the plotted liability benchmark position.

The graph below shows that the current position for the Police Fire and Crime Commissioner is one of no external debt but a loan requirement just below the capital financing requirement. The gap to the external loans of zero represents the under borrowed position / internal borrowing undertaken.



Key Messages

* In the current financial climate the decision has been taken to borrow internally rather than from the PWLB which will be reflected in the capital financing requirement indicator.

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 PFCC 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.

Other Prudential Indicators 2025/26

As per the 2021 CIPFA Prudential Code for Capital Finance 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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Expenditure	4.061	6.175	4.885	5.972	5.102

Capital Financing	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Receipts	0.128	2.231	0.000	0.000	0.000
Government Grants	1.728	0.000	0.000	0.000	0.000
Revenue Contributions	2.193	2.917	0.799	0.525	0.487
Total Financing	**4.049**	**5.148**	**0.799**	**0.525**	**0.487**
Borrowing*	0.012	1.027	4.086	5.447	4.615
Total Funding	**0.012**	**1.027**	**4.086**	**5.447**	**4.615**
Total Financing and Funding	**4.061**	**6.175**	**4.885**	**5.972**	**5.102**

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 2025/26 (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 Requirement	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Balance B/fwd	21.468	20.799	21.090	24.278	28.346
Plus Capital Expenditure financed from borrowing	0.012	1.027	4.086	5.447	4.615
Less MRP for Debt Redemption	(0.681)	(0.737)	(0.899)	(1.380)	(2.050)
Balance C/Fwd	**20.799**	**21.089**	**24.277**	**28.345**	**30.911**

Authorised Limit

This 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	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	23.598	24.187	27.714	31.935	34.500
Other Long Term Liabilities	3.701	3.402	3.064	2.911	2.911
Total Authorised Limit	**27.299**	**27.589**	**30.778**	**34.846**	**37.411**

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 2025/26 (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 PFCC 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	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	22.098	22.687	26.214	30.435	33.000
Other Long Term Liabilities	3.701	3.402	3.064	2.911	2.911
Total Operational Boundary	**25.799**	**26.089**	**29.278**	**33.346**	**35.911**

Actual External Debt

The Commissioner's actual external debt as at 31 March 2025 will be £3.402m, comprising only of other long-term liabilities of £3.402m 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.

Key Messages

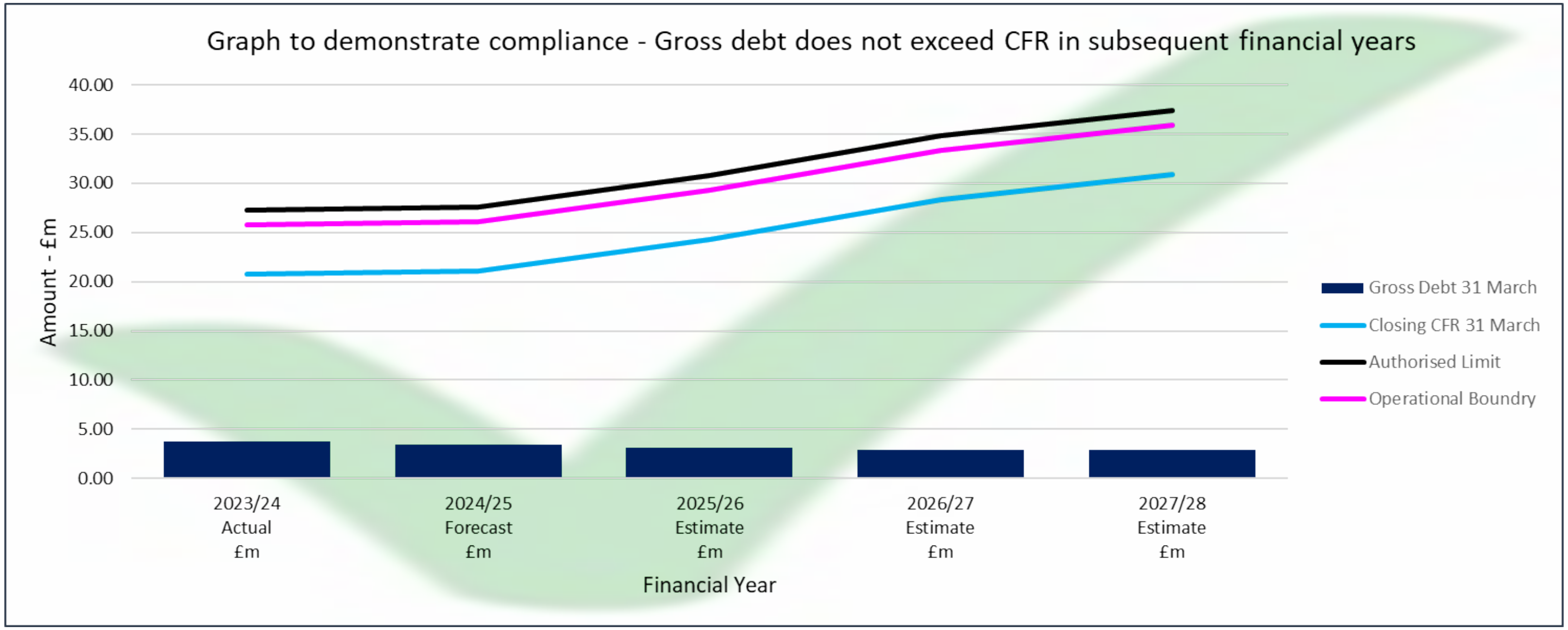
Other Prudential Indicators 2025/26 (Continued)

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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Closing CFR 31 March	20.799	21.089	24.277	28.345	30.911
Gross Debt 31 March	3.701	3.402	3.064	2.911	2.911

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:



Key Messages

Other Prudential Indicators 2025/26 (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 Non-specific 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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Investment income	1.009	1.144	1.015	0.660	0.640
MRP	0.681	0.737	0.899	1.380	2.050
Financing Costs	**-0.328**	**-0.407**	**-0.116**	**0.720**	**1.410**
Net Revenue Stream	130.475	138.306	147.275	149.703	153.053
Ratio	**-0.251%**	**-0.294%**	**-0.079%**	**0.481%**	**0.921%**

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.

Calculation will be based on Option 1 for pre 2008/09 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 2025/26

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 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 2025/26 is unchanged from that of 2024/25 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 2025/26.

Key Messages

Changes to the 2025/26 TMSS prudential indicators and MRP will be required once the detailed impact of IFRS16 is known at the 2024/25 financial year end.

A new International Financial Reporting Standard 16 (IFRS16) has been implemented in the 2024/25 financial year, introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. This will require an adjustment to the Capital Financing Requirement, external debt (other long-term liabilities), the Authorised Limit and the Operational Boundary, to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet.

The related assets and liabilities are brought onto the balance sheet increasing long-term liabilities, and as a result this will increase the debt liability. Generally accepted accounting practice requires these changes to be accounted for retrospectively, with the result that an element of the rental or service charge payable in previous years (and previously charged to revenue accounts) will be taken to the balance sheet to reduce the liability. On its own, this change in the accounting arrangements would result in a one-off increase to the CFR and an equal increase in revenue account balances. This is not seen as a prudent course of action and the code guidance aims to ensure local authorities are in the same position as if the change had not occurred. This is done by recommending the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

Currently, it is not possible to detail the adjustment figures until detailed data gathering has been completed at the end of the 2024/25 financial year. Following this It will be necessary to amend the MRP, Authorised Limit and Operational Boundary limits, this will be amended mid-year once the detailed impact is known.

Appendix A

Creditworthiness Policy

The lending criteria set is 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 2025/26 compared to those in operation for 2024/25. However there has been a change in the methodology to applying the matrix for placing investments.

The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in Schedule A below. The individual, group and category 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 2025/26 are essentially the same as the limits for 2024/25, however, the methodology used in applying the matrix for the placement of investments has been fully aligned with Link Treasury Services methodology. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Commissioner to determine the suggested duration for investments. The Commissioner will, therefore, use counterparties within the following durational bands;

- Yellow 5 years *
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Commissioner uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

UK Government is considered the safest place to invest as it has never defaulted and therefore minimum credit ratings do not apply. All investments are Sterling; therefore, the Commissioner is not exposed to any foreign exchange / currency risk. 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 credit ratings are monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors, Link Treasury Services Ltd, who provide timely updates and advice on the standing of counterparties. The Commissioner is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. 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.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively by Link. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Commissioner will also use market data and market information, as well as information on any external support for banks to help its decision-making process.

Schedule A – Counterparty Groupings and Associated Limits

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Category	Colour (and long-term rating where applicable)	Money limit	Transaction limit	Time limit
Banks *	Yellow	£20m	£2m	3yrs
UK Banks	Purple		£2m	2yrs
UK Banks	Orange		£2m	1yr
UK Banks – part nationalised	Blue		£2m	1yr
UK Banks	Red		£2m	6mths
UK Banks	Green		£2m	100 days
UK Banks	No Colour	Not to be used	0	0
Non-UK Bank**	Orange/Blue/Purple	£6m	£2m	1yr
Non-UK Bank**	Red	£6m	£2m	6mths
Commissioner's banker (where "No Colour")	No Colour	£1m	£1m	1 day
DMADF	UK sovereign rating	unlimited	unlimited	6 months
Local authorities	n/a	unlimited	£4m	1yr
Housing associations	Colour bands	£10m	£2m	As per colour band
Category	**Fund rating*** **	**Money limit**	**Transaction limit**	**Time limit**
Money Market Funds CNAV	AAA	£20m	£4m	liquid
Money Market Funds LVNAV	AAA	£20m	£4m	liquid
Money Market Funds VNAV	AAA	£20m	£4m	liquid

* The yellow colour category is for UK Government, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

** Non-UK Bank (£6m) is within the total category limit of £20m for all banks.

*** Please note: "fund" ratings are different to individual counterparty ratings; 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 Treasury Services Ltd suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow

Creditworthiness.

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Commissioner will not set a minimum rating for the UK.

Credit Default Swap (CDS) prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Commissioner has access to this information via its Link-provided Passport portal.

Limits

Due care will be taken to consider the exposure of the Commissioner's total investment portfolio to non-specified investments, countries, groups and sectors.

a. Non-specified treasury management investment limit. The Commissioner has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 10% (£2m) of the total treasury management investment portfolio.
b. Country limit. 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 from Fitch.
c. No more than £6 Million (15% at full capacity) will be placed with any non-UK country at any time;
d. Sector limits will be monitored regularly for appropriateness.
e. Whilst these limits also apply to the Commissioner's 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.