Agenda item 7

Peter McCall

POLICE, FIRE & CRIME COMMISSIONER

Cumbria Office of the Police, Fire and Crime Commissioner

Borrowing, Treasury Management, Investment and MRP Strategies 2024/25 (including Prudential Indicators)

Report of the CCFRA Chief Finance Officer

Originating Officer: 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 PCCs) to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.

The TMSS presented here complies with the latest code and accompanying guidance notes. The TMSS also incorporates the Investment Strategy.

This report proposes a strategy for the financial year 2024/25. The Cumbria Commissioner Fire and Rescue Authority (CCFRA) was established formally on the 1 April 2023 when it separated from Cumbria County Council. As a result of this strategy includes the forecasted position for 2023/34 but there is no information available for the 2022/23 financial year.

Treasury Management in Local Government continues to be a highly important activity. The Cumbria Commissioner Fire and Rescue Authority (CCFRA) 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 Cumbria Commissioner Fire and Rescue Authority is (noting the uncertainties and the need to review this strategy as more information becomes available) asked to:

1. Approve the Borrowing Strategy for 2024/25 as set out on pages 9-10.
2. Approve the Investment Strategy for 2024/25 as set out on pages 11-14.
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-18.
4. Approve the other Prudential Indicators set out on pages 18-22.
5. Approve the Minimum Revenue Provision Policy Statement for 2024/25 as set out on page 23.
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 CCFRA's Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

The Joint Audit Committee will be 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 CCFRA.

Cumbria Office of the Police, Fire and Crime Commissioner

Peter McCall

POLICE, FIRE & CRIME COMMISSIONER

Borrowing, Treasury Management, Investment, and MRP Strategies 2024/25 (Including Prudential Indicators)

Treasury Management Strategy Statement 2024/25

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Approval of an annual Treasury Management Strategy is a statutory requirement of the CCFRA.

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

General Principles

The Cumbria Commissioner Fire and Rescue Authority (CCFRA) 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 Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance 2018 (previously MHCLG). Together, these cover the financing and investment strategy for the forthcoming financial year. The Cumbria Commissioner Fire and Rescue Authority (CCFRA) was established formally on the 1 April 2023 when it decoupled from Cumbria County Council, comparative figures for 2022/23 are therefore not available.

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 CCFRA. However, it should be noted that all treasury management decisions and activity are the responsibility of the CCFRA 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 CCFRA 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 CCFRA'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 CCFRA's priority for investments will **always** be ranked in the order of:

General Principles (Continued)

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

The CCFRA 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 CCFRA 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 CCFRA's revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2024/25 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 DLUHC Investment Guidance, to produce an investment strategy as part of the wider Treasury Strategy. This is set out below, starting at page 11. Finally, the CCFRA's current treasury advisors, 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 CCFRA 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 CCFRA'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 CCFRA 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 DLUHC Guidance on investments states that publication of strategies is now formally recommended, this document will be published on the CCFRA's website once approved.

The CCFRA 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 DLUHC 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 CCFRA'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 9 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 CCFRA'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 CCFRA's strategy in determining exact borrowing and lending activity.

Key Messages

Investment returns and borrowing rates are likely to peak by mid-2023 and start to fall by the end of 2023. Further rate cuts are expected through 2024 and 2025. However, many factors can impact that forecast.

The CCFRA will need to borrow to fund the capital programme.

Treasury Management Cash Flow Forecast (continued)

The estimated treasury position at 31st March 2024 and for the following financial years are summarised below:

Estimated Treasury Position	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Borrowing	7.500	9.948	11.699	13.618	14.958
Interest Payments	0.194	0.252	0.342	0.411	0.470
Investments (average)	11.500	6.000	6.000	6.000	6.000
Interest Receipts	-0.513	-0.278	-0.210	-0.180	-0.165

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 2024/25 is £278k (latest forecast for 2023/24 is £513k). Interest receipts are higher this year due to higher than anticipated average cash balances and higher interest rates for investments than forecast when the 2023/24 budget was set The timing of future external borrowing is currently not known

The CCFRA inherited a capital financing requirement in relation to historic assets bought by Cumbria County Council which reflects the underlying need to borrow. The Capital Financing Requirement (CFR) is estimated to be £23.488m at the start of the 2024/25 financial year. This includes £13.014m 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 indicates that the CCFRA will need to borrow to deliver the agreed capital programme.

Upon transfer from Cumbria County Council, on the 01 April 2024, the outstanding debt in relation to that capital financing requirement was a PWLB loan of £7.50m. That loan has an interest rate of 2.6% and will mature on the 22 October 2032.

Treasury Management Cash Flow Forecast (continued)

Cumbria County Council was part of the Northwest PFI project, which replaced sixteen fire stations across Merseyside, Lancashire and Cumbria. Cumbria got 5 new fire stations including its HQ at Penrith. The new CCFRA inherited the "debt" relating to those assets. The building programme started in April 2011, with the first station opening in 2012 and the last station opening in 2013.

The contract for building and running the new stations is with Balfour Beatty Fire and Rescue NW Limited. The contract runs for 25 years from completion and hand over of the last station and includes both the service and maintenance of the stations. The stations will be recognised on the Authority's Balance Sheet from the initial handover date. The stations and any plant or equipment installed on them will be transferred to the Authority for nil consideration at the end of the contract.

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

CPI inflation is expected to have peaked. The Bank of England is forecasting inflation to fall to just above 2% by the end of 2024.

The Bank Rate is forecast to reduce in later in 2024, with further reductions expected during 2025.

Treasury Management Interest Rate Forecast

- GDP in November rose by 0.3% month on month, probably meaning the economy escaped a recession in 2023 which is better than originally forecast. GDP growth is expected to pick up gradually during 2024.
- Twelve-month CPI inflation fell to 4.0% in December 2023 and current indications are that CPI has fallen again in January. This is broad-based, reflecting lower fuel, core goods and services price inflation. Although still elevated, wage growth has eased across a number of measures and is projected to decline further in coming quarters.
- The MPC are forecasting that inflation will fall to the 2% target in Q2 2024 *(compared to Q4 2025 previously)* and that the upside risks from domestic drivers have disappeared, however it expects inflation to rebound in Q3 2024 and to be slightly above the 2% target at the end of the year. CPI inflation is projected to be 2.3% in two years' time and 1.9% in three years.

The Monetary Policy Committee (MPC) has increased the Bank Rate 125bps over the past twelve months, taking rates to a 15 year high of 5.25%. At the February meeting a 6-3 majority saw it remain at 5.25% for the fourth meeting in a row, with two members preferring to increase the rate by 0.25% and one member preferring to lower the rate by 0.25%. The MPC stated they would keep under review for how long Bank Rate should be maintained at its current level, they remain prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. The 2% inflation target is expected to be met in 2024 Qtr2 and the bank rate is expected to start falling later in the year.

Base Rate Estimates	2024/25	2025/26	2026/27	2027/28
Quarter 1	5.25%	3.25%	3.00%	3.00%
Quarter 2	5.25%	3.00%	3.00%	3.00%
Quarter 3	4.75%	3.00%	3.00%	3.00%
Quarter 4	3.75%	3.00%	3.00%	3.00%

Key Messages

The CCFRA has an increasing Capital Financing Requirement due to the capital programme, but has modest investments (after deducting the pension grant receipt), and will therefore likely need to borrow in the near future.

Borrowing Strategy

<u>Long Term Borrowing</u>

The CCFRA'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 CCFRA 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 CCFRA's Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the CCFRA must ensure that in the medium term, net debt will only be for capital purposes. Therefore, the CCFRA 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 CCFRA does not currently intend to borrow in advance of spending need.

The table below shows the CCFRA's projected capital financing requirement for 2024/25 and beyond.

Capital Financing	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Balance B/fwd	24.433	23.488	25.444	26.661	28.002
Plus Capital Expenditure financed from borrowing	0.222	3.145	2.683	3.146	2.928
Less MRP for Debt Redemption	-1.167	-1.189	-1.466	-1.805	-2.214
Balance C/Fwd	**23.488**	**25.444**	**26.661**	**28.002**	**28.716**

Details of the capital programme can be found within the CCFRA's budget papers, more specifically the Capital Investment Strategy.

Key Messages

Diversification of investments continues to provide a level of liquid cash that is suitable for the CCFRA's expenditure profile whilst total investment balances remain relatively modest. 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 CCFRA inherited external borrowing of £7.5m from the former Cumbria County Council on 01/04/2023. Given that the opening CFR is forecast to be £10.966m excluding the PFI this effectively means that the CCFRA has historically had its assets funded by £3.466m of capital spend from internal resources. Moving forward it is assumed currently that all capital expenditure will be funded by prudential borrowing. The scope for supporting capital expenditure through internal resources will be limited as the Authority begins life with a relatively low level of reserves/cash balances.

The Bank Rate rises over recent months have pushed up the cost of long-term finance to over 5%. Borrowing rates are expected to start falling during 2024 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 CCFRA 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 there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the CCFRA, in conjunction with its treasury advisor, will continue to monitor market conditions and interest rate prospects on an ongoing basis, in the context of the CCFRA's capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

The CCFRA's is inheriting long-term borrowing from the PWLB (Public Works Loans Board) but other sources of finance are now available and will be 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 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 relatively low there is little to be gained from exposing the CCFRA to extra risk.

Investment Strategy

Local Authorities (which include the CCFRA) 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 CCFRA to approve an investment strategy which must also meets the requirement in the statutory investment guidance issued by the DLUHC in January 2018. The CCFRA 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:

Security
protecting the capital sums invested from loss

Liquidity
ensuring the funds invested are available for expenditure when needed

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 CCFRA's treasury advisors.

Key Messages

In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the CCFRA 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 CCFRA will hold balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. In this first year of operation, the exact details of the likely cash balances throughout the year can only be estimated. It is anticipated that investment balances will peak in July due to the receipt of the pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. It is anticipated that these will average £6.0m across the year and may peak, when the pensions grant is received in July, at around £10m.

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 CCFRA 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 decision to enter into an approved class of investment is delegated to the CCFRA Chief Finance Officer. The strategy allows for investments in pooled funds such as money market funds, ultra-short dated bond funds, short dated bond funds or property funds. The use of bond funds/property funds would further diversify the CCFRA's portfolio, provide a longer-term investment and potentially increase yield. However, given current economic volatility 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 PCC Chief Finance Officer (subject with consultation with the CCFRA) 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 CCFRA's resources. Accordingly, the CCFRA and its 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 that the CCFRA Chief Finance Officer, subject to consultation with the CCFRA, 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 CCFRA'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 CCFRA) 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 CCFRA has no plans to use derivatives during 2024/25. Should this position change, the CCFRA 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 DLUHC'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 CCFRA Chief Finance Officer will maintain a cash flow forecast 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 CCFRA being forced to borrow on unfavourable terms to meet its financial commitments. For the CCFRA, the total of investments over one year in duration are limited to £1m 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. Investment performance will be reported regularly to the CCFRA 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 CCFRA's website alongside this strategy.

Treasury Risk and Treasury Management Practices

The CCFRA'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 CCFRA 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 CCFRA inherited £7.5m of external debt from the former County Council.

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 CCFRA 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	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10years	100%	0%
10 years and above	100%	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. The CCFRA inherited £7.5m of external PWLB debt on 01/04/23 with less than 10 years to maturity and as such has a requirement to apply limits to the maturity profile of existing debt. The maturity date of this loan is October 2032.

Key Messages

Compliance with the indicators will be presented to the CCFRA and the Joint Audit Committee in the quarterly Treasury Activities report.

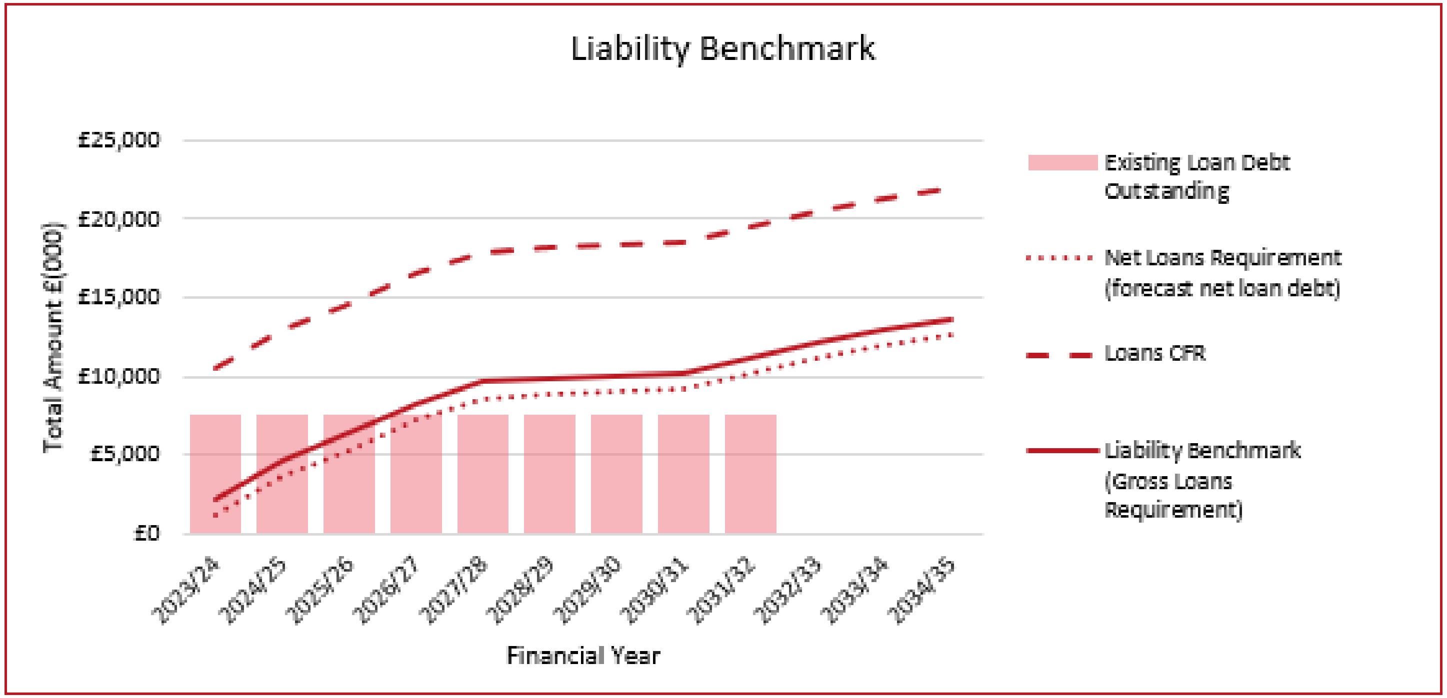
2. Principal sums invested for periods longer than a year

The purpose of this indicator is to contain the CCFRA'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	2024/25	2025/26	20226/27	2027/28
Limit on principal invested beyond one year	£1m	£1m	£1m	£1m

3. Liability Benchmark

The 2021 code requires Authorities to define their own 'Liability Benchmark' which looks at the net management of the CCFRA'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.



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 CCFRA 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 in the role of CCFRA.

Other Prudential Indicators 2024/25

As per the 2021 CIPFA Prudential Code for Capital Finance and the accompanying guidance notes the CCFRA 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. For this first Treasury management statement all assumptions have been made at the prudent upper level and with all new borrowing assumed at the earliest possible date. This will be refined as Treasury management information matures.

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 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Expenditure	2.337	3.145	2.683	3.146	2.928

Capital Financing					
Capital Receipts	0.015	0.000	0.000	0.000	0.000
Government Grants	2.000	0.000	0.000	0.000	0.000
Revenue Contributions	0.100	0.000	0.000	0.000	0.000
Total Financing	**2.115**	**0.000**	**0.000**	**0.000**	**0.000**
Borrowing	0.222	3.145	2.683	3.146	2.928
Total Funding	**0.222**	**3.145**	**2.683**	**3.146**	**2.928**
Total Financing and Funding	**2.337**	**3.145**	**2.683**	**3.146**	**2.928**

Key Messages

Capital Finance Requirement – 'The mortgage you are yet to take'.

Minimum Revenue Provision – 'Annual Mortgage repayments (excluding interest)'.

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

Other Prudential Indicators 2024/25 (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	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Balance B/fwd	24.433	23.488	25.444	26.661	28.002
Less PFI	-13.467	-13.014	-12.522	-11.988	-11.410
Opening CFR Excluding PFI	10.966	10.474	12.922	14.673	16.592
Plus Capital Expenditure financed from borrowing	0.222	3.145	2.683	3.146	2.928
Less MRP for Debt Redemption	-0.714	-0.697	-0.932	-1.227	-1.588
Closing CFR Excluding PFI	**10.474**	**12.922**	**14.673**	**16.592**	**17.932**

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	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
External Borrowing	10.000	11.000	13.000	15.000	16.000
Other Long Term Liabilities	12.030	12.522	11.988	11.410	10.784
Total Authorised Limit	22.030	23.522	24.988	26.410	26.784

Key Messages

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

The CCFRA inherited £7.5m of external PWLB borrowing from the former Cumbria County Council on 01/04/23.

Other Prudential Indicators 2024/25 (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 CCFRA 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
External Borrowing	9.000	10.000	12.000	14.000	15.000
Other Long Term Liabilities	12.030	12.522	11.988	11.410	10.784
Total Operational Boundary	21.030	22.522	23.988	25.410	25.784

Actual External Debt

The CCFRA's actual external debt as at 31 March 2024 will be £7.5m along with other long-term liabilities of £13.014m in relation to the PFI. In constructing this strategy, a prudent approach has been taken. In practice it is likely that some internal resources will be available to support a strategic approach to the timings and interest rate structure of future borrowing.

	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Gross Debt 31 March	7.500	9.948	11.699	13.618	14.958

Other Prudential Indicators 2024/25 (Continued)

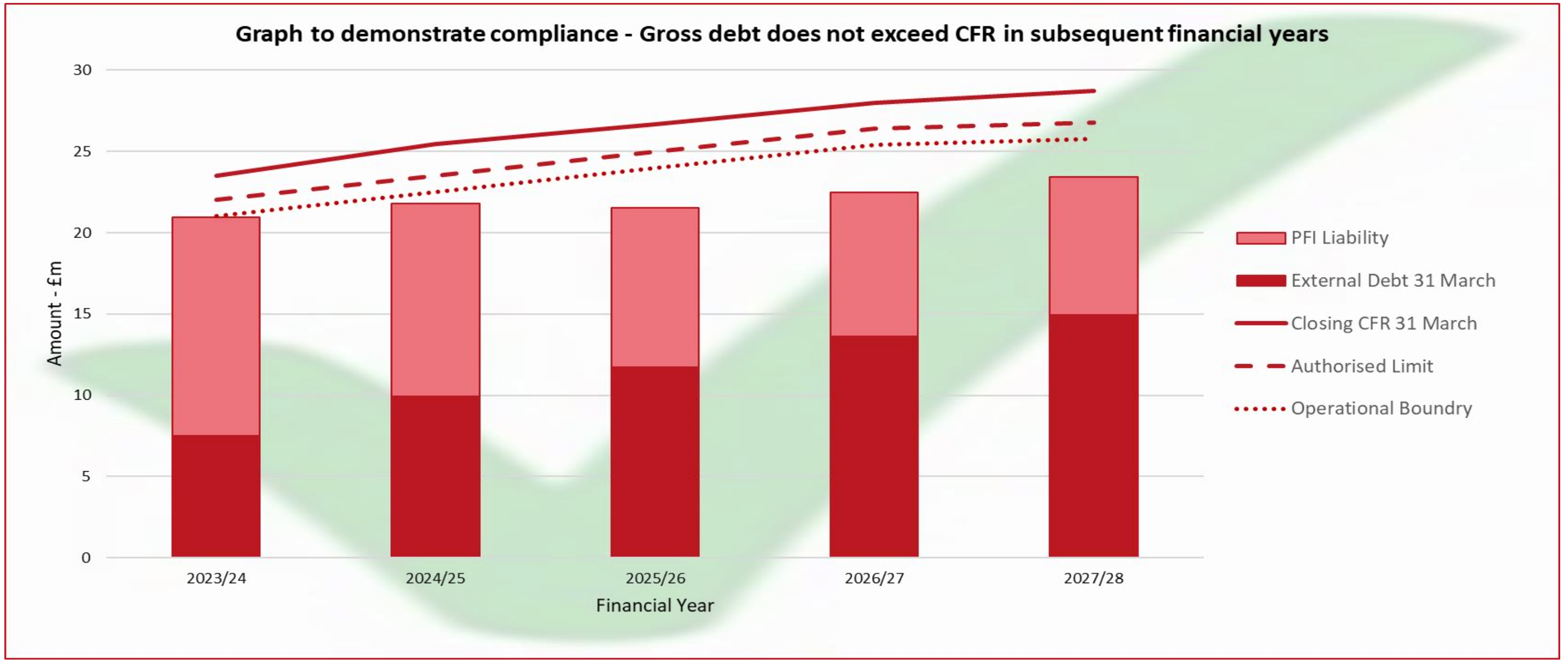
Gross Debt and the Capital Financing Requirement

The CCFRA 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.

	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Closing CFR 31 March	23.488	25.444	26.661	28.002	28.716
Gross Debt 31 March	7.500	9.948	11.699	13.618	14.958

For the purposes of this strategy, it has been assumed that the CCFRA will borrow to the capital financing requirement. In practice the Authority may have some reserves and internal resources available to support the approach to capital funding.

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 2024/25 (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 CCFRA is required to set aside to repay debt, less interest and investments income. The CCFRA'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 (Non PFI)	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
MRP	0.714	0.697	0.932	1.227	1.588
Interest	0.194	0.252	0.342	0.411	0.470
Financing Costs	**0.908**	**0.949**	**1.274**	**1.638**	**2.058**
Net Revenue Stream	25.442	27.824	28.800	29.730	30.692
Ratio	4%	3%	4%	6%	7%

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 CCFRA this would be normally be over 60 years for buildings, 15 years for vehicles and an appropriate life for other assets.

Calculation will be based on option 3.

The CCFRA 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 2024/25

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 CCFRA 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.

The calculations in this initial statement have assumed that CCFRA's MRP policy utilises option 3. The Authority will have no pre 2008/09 borrowing. 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. The PFCC will seek detailed technical advice to support the detailed calculation of MRP for the Authority's first set of annual accounts. 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 CCFRA's revenue budget as this is part of the capital repayment element of the PFI unitary charge. Although it is permitted to make overpayments of MRP no such overpayments are planned for 2024/25.

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.

Counterparty Selection Criteria

The counterparty selection criteria and category limits are set to encourage diversification and to increase the security of those funds invested. 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 CCFRA'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 CCFRA and the Joint Audit Committee will be advised through the quarterly activities report.

The approved investment counterparties for the 2024/25 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 in provided in Schedule B (page 27).

Key Messages

Whilst these limits also apply to the CCFRA'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 £0.5m 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 26). The limits are based on a percentage of the potential maximum sums available for investment during the year of up to £10m. 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 CCFRA'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 CCFRA 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 CCRFA is not exposed to any foreign exchange / currency risk.

Schedule A – Counterparty Groupings and Associated Limits

Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
Category Limit 2024/25	*Amount*	*£5m*	*£5m*	*Unlimited*	*£2m*	*£5m*
	Duration					
Individual Institution/Group Limits						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£0.5m	£1m	£1m	£0.5m	£1m 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	£0.5m	£1m	£1m	£0.5m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£0.5m	£1m	£1m	£0.5m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£0.5m	£1m	£1m	£0.5m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£0.5m	£1m	£0.5m	£0.5m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£0.5m	£1m	£0.5m	£0.5m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£0.5m	£1m	£0.5m	£0.5m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£0.5m	£0.5m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2024/25 are based on the potential maximum available for investment during the year of up to £10m. It should also be noted that as outlined on page 24 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 £1m.

Key Messages

The CCFRA 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 the 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.