



Treasury Management Strategy Statement Minimum Revenue Provision Policy Statement and Annual Investment Strategy Humberside Fire Authority 2023/24



HUMBERSIDE
Fire & Rescue Service

Safer Communities Safer Firefighters

INTRODUCTION

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low-risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet a risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

Reporting requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report based on period ending 30th September – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Authority will receive quarterly update of Prudential Indicators as part of the Management Accounts based on periods ending 30th June and 31st December.

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

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Governance, Audit and Scrutiny Committee.

Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training will be arranged as required.

Treasury management consultants

The Authority uses Link Group, Treasury solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions always remains with the Authority and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2026/27

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure – Indicator 1

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

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	3.348	7.327	2.847	3.707	3.565

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	-	-	-	-	-
Capital grants	-	-	-	-	-
Capital reserves	-	-	-	-	-
Revenue	1.157	2.000	1.500	1.500	1.500
Net financing need for the year	2.191	5.327	1.347	2.207	2.065

The Authority's borrowing need (the Capital Financing Requirement) – Indicator 2

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority had £1.029m of such schemes within the CFR as at 31st March 2022.

The Authority is asked to approve the CFR projections below:

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
Underlying CFR	19.080	23.469	23.320	23.908	24.141
Other LT Liabilities*	1.013	0.996	0.977	0.956	0.933
Total CFR	20.093	24.465	24.297	24.864	25.074
CFR as a % of BR	42.20%	46.93%	45.19%	44.84%	43.61%
Movement in CFR	1.373	4.372	(0.168)	0.567	0.210

Movement in CFR represented by					
Net financing need for the year (above)	2.191	5.327	1.347	2.207	2.065
Less MRP/VRP and other financing movements	(0.818)	(0.955)	(1.515)	(1.640)	(1.855)
Movement in CFR	1.373	4.372	(0.168)	0.567	0.210

This table shows CFR increasing to circa 45% of our Budget Requirement (BR).

*IFRS16 Leases comes into effect from 2024/25. The impact of this is yet to be established and will be reviewed throughout the year.

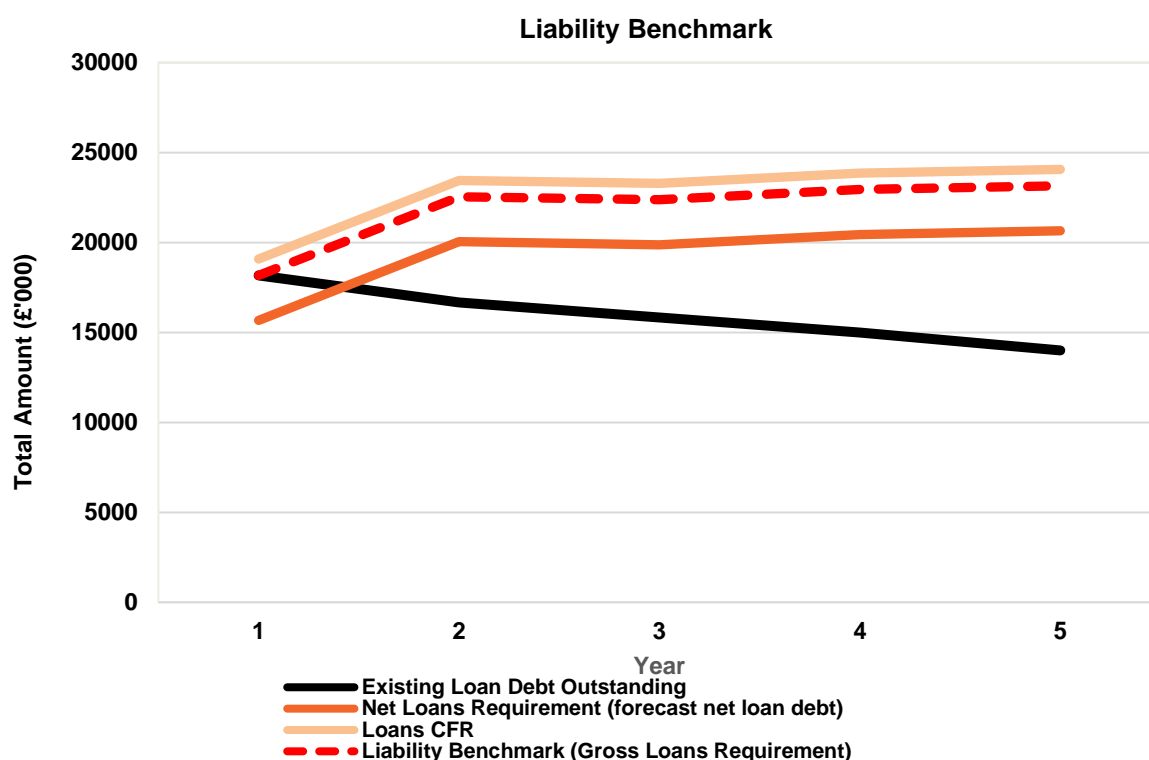
The Authority's Liability Benchmark – Indicator 3

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

- **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The graph below shows that the Authority is currently slightly internally borrowed and this will increase over the next few years. The Authority will actively monitor interest rates and determine the most advantageous time to take actual long-term borrowing. Short-term borrowing may be used until borrowing rates become more attractive.



Core funds and expected investment balances – Indicator 4

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	14.517	13.300	11.001	10.821	11.699
Capital receipts	0.030	0.030	0.030	0.030	0.030
Total core funds	14.547	13.330	11.031	10.851	11.729
Working capital*	(2.500)	(2.500)	(2.500)	(2.500)	(2.500)
(Under)/over borrowing	(0.911)	(5.800)	(5.492)	(5.908)	(6.141)
Expected investments	11.136	5.030	3.039	2.443	3.089

*Working capital balances shown are estimated year-end; these may be higher mid-year

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2023/24 – 2026/27

The capital expenditure plans set out in this section provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

Current portfolio position

The Authority's estimated treasury portfolio position at 31 March 2023, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	19.069	18.169	17.669	17.828	18.000
Expected change in Debt	(0.900)	(0.500)	0.159	0.172	-
Other long-term liabilities (OLTL)	1.029	1.013	0.996	0.977	0.956
Expected change in OLTL	(0.016)	(0.017)	(0.019)	(0.021)	(0.023)
Actual gross debt at 31 March	19.182	18.665	18.805	18.956	18.933
The Capital Financing Requirement	20.093	24.465	24.297	24.864	25.074
Under / (over) borrowing	0.911	5.800	5.492	5.908	6.141

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director of Finance & S.151 Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

The operational boundary – Indicator 5

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	31.500	31.500	31.500	31.500
Other long-term liabilities	3.500	3.500	3.500	3.500
Total	35.000	35.000	35.000	35.000

The authorised limit for external debt – Indicator 6

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Authorised limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	36.500	36.500	36.500	36.500
Other long-term liabilities	3.500	3.500	3.500	3.500
Total	40.000	40.000	40.000	40.000

Prospects for interest rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 6 February 2023. These are forecasts for certainty rates, gilt yields plus 80 bps.

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession

of rate increases. Bank Rate stands at 4% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium, and longer end of the curve in equal measure now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB RATES

1. The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
2. We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

1. The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

1. **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
 2. **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
 3. **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
 4. **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.
-

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

1. The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
2. **The Government** acts too quickly to cut taxes and/or increases expenditure considering the cost-of-living squeeze.
3. **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
4. Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
5. Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Executive Director of Finance & S.151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Authority in the next Treasury Management report.

Policy on borrowing in advance of need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. All rescheduling will be reported to the Authority, at the earliest meeting following its action.

New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●

UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority's investment policy has regard to the following: -

- a) DLUHC's Guidance on Local Government Investments ("the Guidance")
- b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- c) CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
 - **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
 - **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 - This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 4 under the categories of 'specified' and 'non-specified' investments.
 - a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - b. **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.
 - **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio.
-

- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the creditworthiness policy.
- **Transaction limits** are set for each type of investment in the creditworthiness policy.
- This authority will set a limit for its investments which are invested for **longer than 365 days**.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
- This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23).

Creditworthiness policy

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Executive Director of Finance/S.151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Authority for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to

counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Authority will only use banks which:
 - a) are UK banks; and/or
 - b) are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-
and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
 - a) Short Term – F1;
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above;
- Building societies - The Authority will use all societies which:
 - a) Meet the ratings for banks outlined above;
- Money Market Funds – £1m limit (each). Subject to £3m maximum;
- Local authorities, Police and Fire and Crime Commissioners - £2m limit (each);
- Debt Management Office (DMO) - £no limit.

Use of additional information other than credit ratings. Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Authority's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long-term Rating (or equivalent)	Money Limit	Transaction Limit	Time Limit
Individual Banks 1&2 higher quality	F1+	£3m	£3m	364 days
Individual Banks 1&2 medium Quality	F1	£2m	£2m	364 days
Individual UK Building societies	F1+	£3m	£3m	364 days
Individual UK Building societies	F1	£2m	£2m	364 days
Local authorities/Police, Fire and Crime Commissioners		£2m	£2m	364 days
Money Market Funds	AAA	£2m (each)	£2m (each)	liquid

The proposed criteria for specified and non-specified investments are shown in the appendices for approval.

Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Authority's investments.

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in the appendices. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

1. limits in place above will apply to a group of companies;
2. sector limits will be monitored regularly for appropriateness.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.

The current forecasts are for the Bank Rate to reach 4.5% in Quarter 2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23 (Remainder)	4.0%
2023/24	4.4%
2024/25	3.3%
2025/26	2.6%
2026/27	2.5%
Years 6 to 10	2.8%
Years 10+	2.8%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days is £nil			
£m	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	£m	£m	£m
Current investments as at 31.03.23 in excess of 1 year maturing in each year	Nil	Nil	Nil

Investment risk benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of SONIA (Sterling Overnight Index Average).

End of year investment report

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

Day to day Treasury Management

Kingston Upon Hull City Council manage the Authority's treasury management functions under the terms of a service level agreement in accordance with the approved Annual Treasury Management Strategy.

APPENDICES

- (a) Prudential and treasury indicators and MRP statement
 - (b) Interest rate forecasts
 - (c) Economic background
 - (d) Treasury management practice 1 – credit and counterparty risk management
 - (e) Approved countries for investments
 - (f) Treasury management scheme of delegation
 - (g) The treasury management role of the section 151 officer
 - (h) Capital Strategy
-

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2026/27 AND MRP STATEMENT

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	3.348	7.327	2.847	3.707	3.565

Minimum revenue provision (MRP) policy statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations (option 1);
- **Based on CFR** – MRP will be based on the CFR (option 2).

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). There are 2 options available under this method which are as follows:
 - Equal Instalment Method (option 3a)
 - Annuity Method (option 3b)
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4).

These options provide for a reduction in the borrowing need over approximately the asset's life.

As a result of guidance that was recently issued a review was undertaken during 2020/21 to move to the annuity method (option 3b).

Repayments included in annual PFI or finance leases are applied as MRP. The Authority has historically made Voluntary Revenue Provisions (VRP) of £772k.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

Ratio of financing costs to net revenue stream – Indicator 7

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

%	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratios	3.03%	2.81%	3.75%	3.84%	4.07%

The estimates of financing costs include current commitments and the proposals in this budget report.

Maturity structure of borrowing

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

The Authority is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24 – Indicator 8		
	Lower	Upper
Under 12 months	0	15%
12 months to 2 years	0	15%
2 years to 5 years	0	30%
5 years to 10 years	0	60%
10 years and above	0	80%

Appendix 2 - Interest rate forecasts

Link Group Interest Rate View		19.12.22												
		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE		3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings		3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings		4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings		4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB		4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB		4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB		4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB		4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Appendix 3 – Economic Background

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

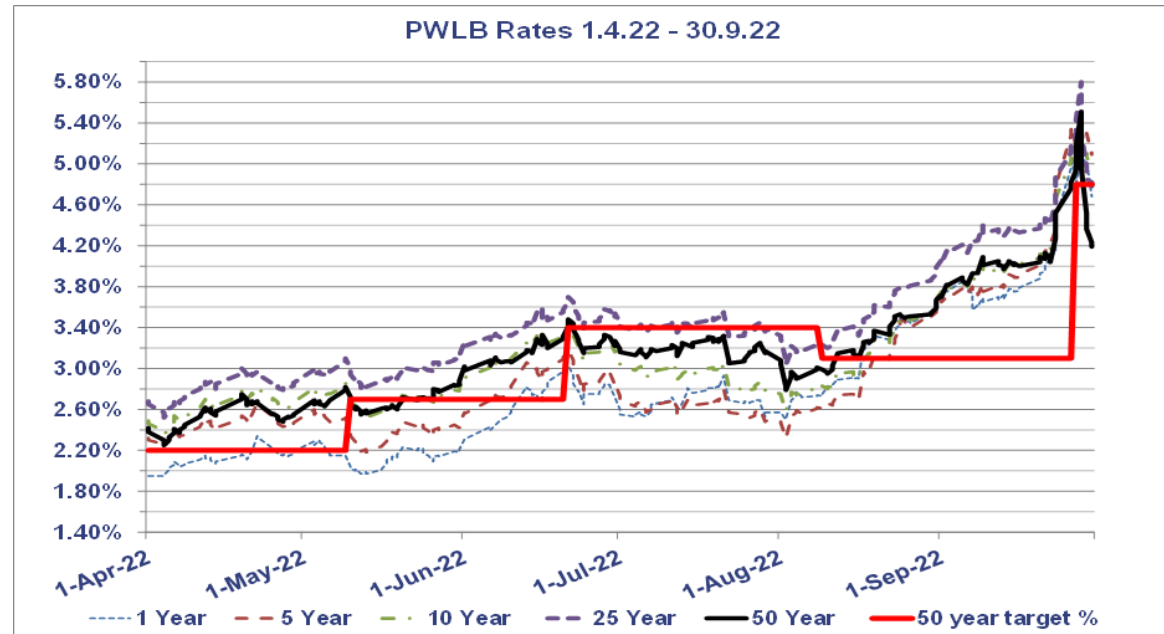
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	F1	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
UK part nationalised banks	UK sovereign rating or Short-term F1, Sovereign rating AA-	In-house	50%	364 days
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating or Short-term F1, Sovereign rating AA-	In-house	50%	364 days

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -

1. Money Market Funds	AAA rated	In-house
-----------------------	-----------	----------

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: The Authority will not make investments longer than 1 year

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority adopted the Code on 15/02/2010 and will apply its principles to all investment activity. In accordance with the Code, the Executive Director of Corporate Services and S.151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The Authority will not use these types of investments.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Finance/S.151 Officer, and if required new counterparties which meet the criteria will be added to the list.

Appendix 5

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

1. Australia
2. Denmark
3. Germany
4. Netherlands
5. Norway
6. Singapore
7. Sweden
8. Switzerland

AA+

9. Canada
10. Finland
11. U.S.A.

AA

12. Abu Dhabi (UAE)
13. France

AA-

14. Belgium
15. Qatar
16. U.K.

THIS LIST IS AS AT 19.12.22

Appendix 6**TREASURY MANAGEMENT SCHEME OF DELEGATION****Fire Authority**

- i. receiving and reviewing reports on treasury management policies, practices and activities;
- ii. approval of annual strategy;
 - approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
 - budget consideration and approval;
 - approval of the division of responsibilities;
 - receiving and reviewing regular monitoring reports and acting on recommendations;
 - approving the selection of external service providers and agreeing terms of appointment;
 - reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

1. recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
2. submitting regular treasury management policy reports;
3. submitting budgets and budget variations;
4. receiving and reviewing management information reports;
5. reviewing the performance of the treasury management function;
6. ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
7. ensuring the adequacy of internal audit, and liaising with external audit;
8. recommending the appointment of external service providers;
9. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
10. ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
11. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
12. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
13. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
14. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
15. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
16. ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
17. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
18. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
 - a. *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

CAPITAL STRATEGY

1. Introduction

- 1.1 There is a new requirement on local authorities (including fire authorities) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the area of the authority concerned.
- 1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). Given that HFA makes no such investments, a strategy has not been prepared.
- 1.3 This Appendix sets out the proposed capital strategy for approval.

2. Capital Expenditure

- 2.1 The Authority's capital expenditure plans are approved by the HFA, as part of the budget report each year.
- 2.2 The capital programme is usually restricted to:-
 - b) Investment in operational buildings – e.g. fire stations and administrative offices;
 - c) Renewal of operational fleet;
 - d) New and replacement firefighting equipment;
 - e) Investment in ICT.
- 2.3 The Authority's Constitution sets out the delegations to the Chief Fire Officer & Chief Executive on the delivery of the capital programme.
- 2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy and are approved annually at the December HFA meeting.
- 2.5 Expenditure on the **renewal of the operational fleet** is directed by the replacement programme approved by the HFA. This is considered and approved each year at the December HFA meeting.
- 2.6 Capital expenditure on **firefighting equipment** ensures equipment is replaced when it has reached the end of its useful life or has become technologically obsolescent. It also enables the Service to invest in new technology.
- 2.7 Capital expenditure on **ICT** is determined by the ICT replacement programme which is approved annually at the December HFA meeting.
- 2.8 Monitoring of capital expenditure is carried out by the Strategic Leadership Team; Governance, Audit and Scrutiny Committee and the HFA. Reports are presented on four occasions during the year and at outturn.
- 2.9 HFA does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.10 Forecast capital expenditure is:-

End of:	£000
22/23	3,348
23/24	7,327
24/25	2,847
25/26	3,707
26/27	2,565

3. Financing of Capital Expenditure

- 3.1 HFA funds capital expenditure from the revenue budget, capital receipts and prudential borrowing.
- 3.2 Prudential borrowing is used to fund capital expenditure, within the limits prescribed within the Annual Treasury Management Strategy Statement. This is reviewed annually for affordability.
- 3.3 HFA measures its capital financial requirement, which shows our underlying need to borrow for a capital purpose. This is shown in the table below:-

End of:	Underlying CFR	Other LTL	Total CFR
	£000	£000	£000
23/24	23,469	996	24,465
24/25	23,320	977	24,297
25/26	23,908	956	24,864
26/27	24,141	933	25,074

- 3.4 Projections of actual debt are part of the treasury management indicators in the Annual Treasury Management Strategy Statement.

4. Debt Repayment

- 4.1 HFA makes charges to the budget each year to repay debt incurred for previous years' capital spending. This is known as "Minimum Revenue Provision" (MRP). The general principle is that HFA seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed. MRP is calculated as:

- 4% of the CFR at the end of the preceding financial year; and
- Based on the useful asset life using the annuity method

5. Commercial Activity

- 5.1 Government guidance now requires us to specify our policy towards non-financial investments.
- 5.2 HFA makes no such investments.