TREASURY MANAGEMENT STRATEGY STATEMENT

1. This statement sets out the Treasury Management Strategy for 2021/22 and limits under the prudential framework. It also provides a review of strategy and operations in 2020/21. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 'Treasury Management in Public Services' which is re-adopted each year by the Police and Crime Commissioner (PCC).

2. The Local Government Act 2003 and Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the system of capital finance to be followed by a local authorities from 2004. This strategy takes account of the requirements of the regulations and sets them in the context of the Treasury Management Code of Practice.

3. The borrowing is required to support the delivery of policing in West Yorkshire and to support corporately determined schemes for which no capital resource other than borrowing has been identified. Estimates of the likely funding required are set out in the capital annex below and further work is underway to ensure there is a full robust programme of delivery for all schemes that will enable the borrowing requirements for future years to be fully understood.

4. Treasury Management encompasses the following:

   - Raising loans to fund capital payments, to refinance maturing debt and to cover any temporary short-term cash flow deficits.
   - Arranging other financial instruments and credit arrangements.
   - Debt restructuring to improve portfolio efficiency.
   - Investment of the PCC's long term and short term cash surpluses.
   - Managing the PCC's cash flow.
   - Arranging leasing finance (excluding land and buildings) on behalf of the PCC.
   - Dealing with financial institutions and brokers.

Affordability

5. Balanced Budget Requirement

   It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 to produce a balanced budget. In particular, Section 33 requires the PCC, as a Local Authority, to calculate his budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

This means that capital expenditure must be limited to a level where increases in charges to revenue from additional external interest and running costs are affordable within the projected income levels for the foreseeable future.

6. Budget Assumptions

The budget estimates associated with treasury management activity are set out below:

	Estimate 2020/21 £000	Estimate 2021/22 £000
Interest Payable	4,486	5,043
Debt Management Expenses	7	7
Premiums and Discounts	21	21
Interest Receivable	(775)	(757)
Total	3,739	4,314

Treasury Management Activity 2020/21

7. The strategy which was approved for 2020/21 is set out below:

Factors in Formulation of the Strategy

- The PCC had projected average daily surplus funds of £70m **(The actual figure as at 28 February 2021 is £94.9m)**

- It was anticipated that £8m additional borrowing would be undertaken during 2020/21. This was due to anticipated borrowing requirement for a specific capital scheme. This scheme has not been able to progress due to land negotiations and therefore it is not expected that there will be any new long term borrowing in 2021. Short term borrowing was anticipated to be at 0.80% **(Short term borrowing rates have averaged at 0.25%).**

- Investments were estimated to earn 0.80%. **(The actual figure as at 28 February 2021 is 0.45%).**

- At the time of the budget the PCC was expected to be £9.616m under borrowed at the end of 2020/21. Due to slippage, a healthy cash flow position, and the current uncertainty over future funding, it was not considered prudent or necessary to undertake external borrowing.

Objectives of the Strategy

- ECONOMY: to achieve the lowest net interest rate costs, whilst recognising the risk management implications

- STABILITY: to prevent the need for excessive borrowing in future years when rates may be unfavourable and to protect the annual revenue budget from short term fluctuations in interest rates.

The Strategy

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.

- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.

- To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

- To observe the prudential indicators for maturity profile.

- To maintain a spread of maturity dates for investments.

8. As at 31 March 2020 the capital financing requirement (underlying need for long term borrowing) stood at £183.615m. Excluding the PFI liability, the CFR relating to other capital expenditure was £93.388m, in comparison with long term external debt of £85.532m. The approved capital budget for 2020/21 of £18.5m has been significantly re-profiled to mitigate against anticipated future shortfalls in capital funding. The latest position for 2020/21 indicated a 2020/21 capital spend of £16.903m with a forecast for 2021/22 of £33.497m.

9. The PCC's long term external borrowing has decreased slightly from £85.5m at 31 March 2020 to £75.3m at 28 February 2021 due to annuity repayments and the maturity of £10m borrowing. No new long term borrowing has been taken, but temporary borrowing has been utilised throughout the year to support the cash flow.

10. The debt portfolio now consists of fixed rate loans ranging from 3.76% to 9.5% (average 4.54%) and has a likely current year cost for interest payable of £3.631m.

11. The original estimate for interest receivable (for period and overnight investment of surplus funds) was £0.775m; the revised estimate being £0.042m. The reduced interest is due to the significant fall in investment rates caused by the COVID-19 crisis..

12. As at 28 February 2021 a total of 53 investments amounting to £401m had been made with approved institutions, for periods ranging from 1 days to 364 days and interest rates ranging from 0.01% to 0.95%.

13. At the start of 2020 there had been a continuation of the previous overall economic situation but the Covid-19 pandemic that emerged during March 2020 has continued with greater impact anticipated for 2020/21 and continuing into 2021/22. Interest rates remain low and are not expected to increase for the foreseeable future with any increase in bank base rate expected to be slow and measured. The bank base rate was 0.75% for the majority of 2019/20 however two emerging cuts were made in March 2020 to the current level of 0.1% on 11 March 2020. The impact of Brexit continues to be an additional source of uncertainty to markets in forecasting GDP growth, inflation, and bank rate movements. Opportunities to reduce loans remains limited and the return available on investments remains low due to the current low levels of base rate.

14. The treasury service itself is provided to the PCC by Wakefield MDC through a service level agreement. Additionally, under the service level agreement with Wakefield MDC, the PCC uses Link Treasury Services as his external treasury management advisers.

15. The agreed policy is to seek to minimise the rates at which the PCC borrows and to continue to refinance any longer term loans if rates appear advantageous. No such opportunities have arisen so far in 2020/21.

16. The business planning and budget report sets out the estimated requirement for borrowing to supplement the capital grants received. The calculations in the annex below demonstrate how this works through the capital financing requirement and set out the financing costs which are then included within the revenue budget.

17. The PCC has strict rules on investment strategy which are set out below for consideration and re-approval. These are set to minimise the risk to the PCC's funds but does mean that interest earned on deposits is lower than it could be. It is therefore in the PCC's interest to seek to utilise any cash balances to reduce the cost of long term borrowing and this policy will continue to be pursued if possible. The increase in the Public Works Loan Board (PWLB) rates, initially announced in October 2010, reduced the opportunity to repay long term debt without incurring extra cost. The PWLB rates were later improved through the introduction of a certainty rate reduction but discount rates have not changed, and it is these rates that are used to determine premiums and discounts on loan repayments. The PCC would incur significant premiums by repaying borrowing but will review this situation as and when interest rates start to rise. Further the PWLB introduced a 1% increase in its borrowing costs in September 2019 pending a review and consultation on PWLB rates during Summer 2020. This consultation concluded and new rules were implemented which effectively prevents borrowing from the PWLB if borrowing for invest for yield schemes are undertaken. The PCC does not have powers to enter such schemes and can now access PWLB rates at the pre September 2019 levels after the 1% increase was removed by HM Treasury as a result of the consultation.

Treasury Management Activity – Investment Strategy

18. The PCC's investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of its investments on time first, with ensuring

adequate liquidity second and investment return third. In the economic climate outlined above, there is over-riding risk consideration, that of counterparty security. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

19. It is proposed that the existing policy of utilising the Treasury Management Team at Wakefield MDC be reaffirmed for 2021/22.

20. Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current Bank Rate of 0.1% remaining flat. The PCC's investment decisions are based on comparisons between the rises priced into market rates against the PCC's and advisors own forecasts.

21. There continue to be operational difficulties relating to the current Eurozone crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

22. The PCC will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

23. All investments will be made in accordance with the PCC's investment policies and prevailing legislation and regulations.

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.
- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.
- To consider debt restructuring either through premature repayments, conversions, or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.
- To observe the prudential indicators for maturity profile.
- To maintain a spread of maturity dates for investments.

Prudential Funding Arrangements

24. The principal purpose of the prudential system is to allow local authorities as much financial freedom as possible whilst requiring them to act prudentially. There will be no government borrowing approvals issued but restrictions are imposed through the CIPFA Prudential Code which requires every authority to set prudential indicators and limits, and thus be satisfied that it can afford the results of its borrowing. These limits, which must not be exceeded, must be formally agreed by the PCC before the start of each financial year. The government has retained the powers to, if it so wishes, limit the level of borrowing incurred by authorities.

25. The applicable codes governing the PCCs arrangements are the ‘Treasury Management in the Public Services Code of Practice’, and the ‘Guidance notes 2017’, and ‘The Prudential Code for Capital Finance in Local Authorities 2017’. In summary these codes emphasise that the PCC must ensure that all his capital and investment plans and borrowing are prudent and sustainable. In doing so the PCC will consider his arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the PCC’s overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum three year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term.

26. A capital strategy is to determine that the PCC takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy is reviewed and updated annually.

27. The code requires full capital and revenue plans to be prepared for at least three years forward in order to assess the financial effects of the planned capital investment. The PCC’s medium term financial strategy is considered by the PCC on a regular basis and to ensure a level of affordability capital expenditure will be limited to proposed levels.

Prudential Indicators 2020/21 – 2023/24

28. Capital Expenditure

The estimated capital outturn for 2020/21 and the estimates of capital expenditure included within the capital forecast are:

2020/21 £000 Estimate	**2021/22 £000 Estimate**	**2022/23 £000 Estimate**	**2023/24 £000 Estimate**
16,903	33,497	49,641	27,540

Please note that the figures above do not include the PFI scheme.

29. Capital Financing Requirement

	2020/21 £000 Estimate	**2021/22 £000 Estimate**	**2022/23 £000 Estimate**	**2023/24 £000 Estimate**
General	98,249	113,362	133,636	142,392
PFI	87,563	84,746	81,883	79,326
Total:	**185,812**	**198,108**	**215,519**	**221,718**

The CFR is 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 PCC's 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 borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility and so the PCC is not required to separately borrow for these schemes.

In accordance with best professional practice, the PCC does not associate borrowing with particular items or types of expenditure.

The PCC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCC has, at any point in time, a number of cashflows both positive and negative, and manages his treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy and practices.

In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the PCC and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the PCC's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The PCC's Treasurer reports that the PCC has had no difficulty meeting this requirement in 2020/21.

The PCCs external debt is not currently above his borrowing need or CFR.

The PCC is however, highly geared, due to external borrowing taken out previously to support historical capital programmes. Subsequent policy changes and ongoing MRP charges have resulted in a reducing CFR. Ideally, the PCC would repay external debt in line with the fall in CFR, however, given the current economic climate, and particularly low interest rates, the cost of re-scheduling historical debt is significant at the moment. The option of debt repayment is continually monitored by the Treasurer in conjunction with our treasury advisers, with a view to repaying debt when it is cost-effective to do so.

30. Debt and the CFR

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates activities within well-defined limits. One of these is that the PCC gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates for 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 purposes.

	2020/21 £000 Estimate	**2021/22 £000 Estimate**	**2022/23 £000 Estimate**	**2023/24 £000 Estimate**
Gross Market and PWLB Debt	74,995	74,407	73,761	73,052
Other Long term Liabilities (PFI)	87,563	84,746	81,883	79,326
Sub-Total:	**162,558**	**159,153**	**155,644**	**152,378**
Less investments	76,000	66,000	65,000	64,000
Estimated Net Debt:	**86,558**	**93,153**	**90,644**	**88,378**
CFR – Capital Programme	98,249	113,362	133,636	142,392
CFR – PFI	87,563	84,746	81,883	79,326
Total CFR	**185,812**	**198,108**	**215,519**	**221,718**
(Over)/ under borrowing	**23,254**	**38,955**	**59,875**	**69,340**

31. Authorised Limit for External Debt

It is recommended that the PCC authorises the following limits for his total external debt gross of investments for the next three financial years.

	2020/21 £000 Estimate	**2021/22 £000 Estimate**	**2022/23 £000 Estimate**
Borrowing	110,000	130,000	130,000
Other long term liabilities (PFI)	100,000	100,000	100,000
Total:	**210,000**	**230,000**	**230,000**

The limits separately identify borrowing and other long term liabilities such as finance leases. Other long term liabilities, relate mainly to, the PFI Scheme. The figures above are early indications of the likely liability taken from the PFI financial model. The model may alter in subsequent years as further progress is made and this will have a consequential impact on the indicator.

The PCC is asked to approve these limits and to give consent to the Treasurer to effect movement between the separately agreed limits for borrowing and other long term liabilities within the total limit for any individual year, following options appraisal and an assessment of best value for money for the PCC. Any such change made will be reported to the PCC at the earliest opportunity.

The PCC's Treasurer reports that these authorised limits are consistent with the PCC's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved Treasury Management Policy Statement and practices. The PCC's Treasurer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes have been taken into account.

The PCC is asked to note that the authorised limit determined for 2020/21 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

32. Operational Boundary for External Debt

The PCC is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the PCC's Treasurer estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The operational boundary represents a key management tool for in year monitoring by the PCC's Treasurer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The PCC is asked to delegate authority to the Treasurer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the PCC at the earliest opportunity.

	2020/21 £000 Estimate	**2021/22 £000 Estimate**	**2022/23 £000 Estimate**	**2023/24 £000 Estimate**
Borrowing	108,000	120,000	120,000	120,000
Other long term liabilities (PFI)	91,000	90,000	90,000	90,000
Total:	**199,000**	**210,000**	**210,000**	**210,000**

33. Interest Rate Exposures

The PCC must set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. The indicators relate to both fixed interest rates and variable interest rates.

(i) Upper Limit on Fixed Interest Rates

The PCC's upper limit for fixed interest exposure for the period 2021/22 – 2022/23 is **£5.0m p.a.**, based on the anticipated fixed interest payments net of any anticipated fixed income over the period.

(ii) Upper Limit on Variable Interest Rate Exposures

The PCC's upper limit for variable interest exposure for the period 2021/22 – 2022/23 is **£2.5m p.a**., based on the anticipated variable interest payments net of any anticipated variable income over the period.

34. Maturity Structure of Borrowing

The PCC must set, for the forthcoming financial year, both upper and lower limits with respect to the maturity structure of its borrowing. The indicator identifies the amount of projected borrowing that is fixed rate and maturing in each period expressed as a percentage of total projected fixed rate borrowing. The percentages are shown below over the specified periods.

	Upper Limit %	**Lower Limit %**
Under 12 Months	30	0
12 Months and within 24 Months	40	0
24 Months and within 5 Years	60	0
5 Years and within 10 Years	80	0
10 Years and within 20 Years	100	0
20 years and within 30 Years	100	0
30 Years and within 40 Years	100	0
40 Years and within 50 Years	100	0
50 Years and above	100	0

35. Total Principal Sums invested for periods longer than 365 days

If the PCC invests or plans to invest for longer than 365 days he has to set an upper limit for each financial year for the maturity of such investments.-

	2020/21 £m	**2021/22 £m**	**2022/23 £m**
Total Principal Sum invested to final maturities beyond the period end.	15	15	15

36. Investment Counterparty Selection Criteria

The PCC's Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to PCC as necessary. This criteria is separate to that which chooses Specified and Non-Specified Investments as it provides an overall pool of counterparties considered high quality which the PCC may use rather than defining what the investments are.

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

Banks 1 - Good Credit Quality
The PCC will only use banks which:

Are UK banks; and/or

Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA from 2 out of 3 agencies, provided the third is no lower than AA+

And have, **as a minimum**, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

Short Term – F1

Long Term – A

Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.

Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland.
These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

Banks 3 – **In addition the PCC will use**:
The PCC's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Building Societies – the PCC will only use Building Societies which meet the ratings for banks outlined above

Money Market Funds – Long-term credit rating AAA

UK Government (the DMADF)

MRP Policy

37. All expenditure incurred by the PCC must be charged to the revenue account in the year it is incurred, with the exception of items which can be capitalised in accordance with proper accounting practice – in essence items which have an expected life of more than one year.

38. Capital expenditure on such items (land, buildings, IT, vehicles and equipment) can be resourced in a number of ways. In the case of capital grant, capital receipts, and contributions from the revenue budget, the expenditure is effectively paid for as it is incurred by application of those resources.

39. In the case of capital expenditure financed by borrowing, the expenditure is paid for from the revenue budget by making an annual prudent provision known as a Minimum Revenue Provision (MRP) using one of the options set out in the Statutory Guidance issued by MHCLG.

40. The guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed by the PCC prior to the start of each financial year.

41. The intention of the guidance is to ensure that the repayment to revenue is made over a period bearing some relation to that over which the asset continues to provide a service.

42. The recommended MRP Statement is as follows:
    a) For capital expenditure incurred before 1 April 2008 or which will in the future be Supported Capital Expenditure (i.e. the amount which attracts revenue support grant through the Capital Financing Block), the MRP policy will be:

       Based on the Straight Line Method (equal instalment) method for a period of 50 years.

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

       Based on the basis of equal annual instalments over the estimated life of the relevant asset.

    c) Annuity method to be used where financing is required for major capital schemes such as land and buildings.

43. The PCC's policy is to finance shorter lived assets from capital receipts, grants and revenue contributions, with borrowing generally reserved for land and buildings with an expected life in excess of 25 years.