CALDERDALE MBC

WARDS AFFECTED ALL

CABINET

11th March 2024

CAPITAL & INVESTMENT STRATEGIES

REPORT OF THE DIRECTOR OF RESOURCES AND TRANSFORMATION

1. PURPOSE OF REPORT

1.1 To approve:-

1) A Capital Strategy and Capital Programme
2) An Investment Strategy (including the Treasury Management Strategy)
3) The Treasury Management Policy
4) The Council's Minimum Revenue Provision (MRP) Policy
5) Prudential Indicators for 2024/25, 2025/26 & 2026/27

2. NEED FOR A DECISION

2.1 The Council must determine how it is to operate within the forecast financial resources over the medium term, this includes both revenue and capital investment. Whilst revenue budgets enable the council to provide the day-to-day services for residents, capital expenditure is spending on assets and infrastructure required to deliver the best outcomes for the place and people of Calderdale. Capital investment also contributes to efficiencies in the safe operation of the council and supports long-term financial sustainability.

2.2 These strategies form a fundamental element of the Council's stewardship of public funds. The Capital Investment Strategy sets out the framework for all capital investment decisions, maximising external funding opportunities and ensuring that the Capital Programme is informed by the principles and aligned to our Corporate Plan and Wellbeing Priorities. The Investment Strategy ensures our cash flow is adequately planned and capital investment obligations prudently met.

2.3 It is required by part 1 of the Local Government Act 2003, related statutory guidance, Prudential code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Sector that the Council approves a Capital Strategy and an Investment strategy and related Prudential Indicators in advance of the next financial year.

2.4 The Authority is also required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 to prepare an annual statement of their policy on making MRP for submission to full Council.

3. RECOMMENDATION

3.1 That the following strategies and policies be approved for recommendation to Council:-

1. The Capital Strategy and Capital Programme (Appendix 1)
2. The Investment Strategy (Appendix 2)
3. The Treasury Management Policy (Appendix 3)
4. The Council's Minimum Revenue Provision Policy (Appendix 4)
5. The Prudential Indicators (Appendix 5)

3.2 That an Operational Boundary for external debt of £184m, £183m and £182m and an Authorised Limit for external debt of £191m, £190m and £189m for the financial years 2024/25, 2025/26 and 2026/27 respectively be approved for recommendation to Council.

4. BACKGROUND AND/OR DETAILS

4.1 Capital expenditure is a key enabler for the Council to fulfil its duties and for delivery of its vision and Corporate Plan priorities. Investment in the right things can underpin and support better outcomes for people who live in Calderdale. Capital investment also contributes to efficiencies in the safe operation of the Council and supports long-term financial sustainability. The Capital Strategy sets out principles for capital investment and seeks to maximise funding opportunities through sources of external funding.

4.2 The Investment Strategy incorporates our approach to Treasury Management, which is the management of our 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.

4.3 The contribution the treasury management function makes to the Council 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.

4.4 The Prudential Code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Sector, councils are required to produce both a capital strategy and investment strategy reflecting the requirements of these documents as well as the related Statutory Guidance on Local Government Investments. This includes the Minimum Revenue Provision Policy and Prudential Indicators.

5. OPTIONS CONSIDERED

5.1 There are no alternative options for consideration, as the Strategies and Policies for approval, are required by legislation in a form prescribed by the relevant Codes of Practice. A summary of each is provided below.

The Capital Strategy (**Appendix 1**)

5.2 In order to demonstrate that we take capital and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability we need to put in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made giving due consideration to both risk and reward and the impact on the achievement of priority outcomes.

5.3 The purpose of the capital strategy is therefore to:-

- ensure capital expenditure is aligned with the Council's priorities
- maximise the use of resources
- provide a clear framework for decisions relating to capital expenditure
- establish a corporate approach to generating capital resources

5.4 The appended strategy also provides a forward view of priority capital schemes under development and how this investment will affect revenue in future years' medium term financial plans. It also presents a flexible use of capital receipts strategy to support the Council's transformation, Appendix 1a. Members' future decisions on priorities within the Capital Programme will directly affect the plan set out.

The Investment Strategy (**Appendix 2**)

5.5 The Council agrees an Investment Strategy incorporating both traditional treasury management activities as well as non-financial investments (which are essentially property investments bought for profit) before the start of the new financial year in keeping with the CIPFA Code of Practice.

5.6 The Treasury Management Policy (Appendix 3) and suite of Prudential Indicators (Appendix 5) are the Council's overarching guidelines for Treasury activities providing a framework within which the Council's Treasury function must operate. The Treasury Management Strategy is the planned approach of operation consistent with those policies.

5.7 Any borrowings or investments carried out will be within the limits as set out in those policies. The strategy outlined in Appendix 2 will minimise risk, reduce short and long term interest costs to the Council and maximise investment income whilst providing sufficient flexibility to respond to movements in the economy and interest rates when they occur.

Treasury Management Policy (**Appendix 3**)

5.8 The Treasury Management Policy flows from the Investment Strategy and no changes are proposed.

The Council's Minimum Revenue Provision Policy (**Appendix 4**)

5.9 Capital expenditure incurred by the Council can be funded from grants or capital receipts, but sometimes the expenditure is financed by "credit arrangements" such as borrowing or leasing. Local authorities are required to pay off these credit arrangements (or debt) by charging an amount to their revenue budget each year. This is called the Minimum Revenue Provision (MRP).

5.10 The policy was revised in 2023 and this method remains the most prudent at this time as it provides flexibility to allow the most appropriate method under the asset life basis to be applied. The policy statement is in Appendix 4.

Prudential Indicators for 2024/25 to 2026/27 (**Appendix 5**)

5.11 Under the Prudential Code for Capital Finance in Local Authorities, before the start of each financial year, the Council is required to set its prudential indicators for the forthcoming and following two years.

5.12 The prudential indicators shown in Appendix 5 are consistent with the plans and approach taken in the Capital Strategy, Investment Strategy and MRP Policy recommended within this report. The majority of the indicators are estimates and actuals relating to capital expenditure/financing as well as borrowing costs compared to the Authority's overall budget and these are for Members to note.

5.13 In addition to these there are two limits relating to the debt ceiling which also need formally approving to give Members assurance and control over the borrowings of an authority. The Council's Operational Boundary (expected level) for external debt is recommended to be £184m, £183m & £182m for the financial years 2024/25, 2025/26 and 2026/27 respectively. Authorised Limits (maximum debt levels) of £191m, £190m and £189m for the financial years 2024/25, 2025/26 and 2026/27 respectively are also being recommended.

6. FINANCIAL IMPLICATIONS

6.1 The implications are contained within the report and are reflected in the 2024/25 revenue budget.

7. LEGAL IMPLICATIONS

7.1 Due to the nature of this report there are no legal implications.

8. HUMAN RESOURCES AND ORGANISATION DEVELOPMENT IMPLICATIONS

8.1 There are no HR & OD implications arising directly from these policies and strategies although the implications of its implementation will need to be considered.

9. CONSULTATION

9.1 Although no direct consultation has been carried out, the report is in keeping with previous years. Information has also been collected from financial brokers, advisers and other institutions.

10. ENVIRONMENT, HEALTH AND ECONOMIC IMPLICATIONS

10.1 None arising out of this report although the environmental, health and economic implications of the implementation of these strategies will need to be considered at the relevant time.

11. EQUALITY AND DIVERSITY IMPLICATIONS

11.1 None arising out of this report.

12. SUMMARY AND RECOMMENDATIONS

12.1 The strategies form a fundamental element of the Council's stewardship of public funds enabling effective use of capital resources to support the achievement of the Council's strategic objectives, vision for Calderdale and it's priorities.

12.2 The report seeks Cabinet's approval of the Capital Strategy, Capital Programme, Investment Strategy, Treasury Management Policy and Minimum Revenue Provision Policy, and recommends them to Full Council for adoption.

12.3 The report sets revised prudential indicators and seeks Cabinet's approval of an Operational Boundary for external debt of £184m, £183m and £182m and an Authorised Limit for external debt of £191m, £190m and £189m for the financial years 2024/25, 2025/26 and 2026/27 be recommended to Full Council.

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DOCUMENTS USED IN THE PREPARATION OF THIS REPORT:

1. CIPFA's Code of Practice on Treasury Management 2021
2. CIPFA's Code of practice for Prudential Indicators 2021
3. Capital & Investment Report 2023/24
4. The Medium Term Financial Plan report 2024/25

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT:
Online/Finance Services, Princess Buildings, Halifax

APPENDIX 1

CAPITAL STRATEGY

1 Legal and Prudential Framework

1.1 The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2021. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

1.2 The capital strategy which Cabinet and Council are being asked to approve reflects all the requirements of the Code.

1.3 The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.4 The Prudential code requires authorities to look at capital expenditure and investment plans in light of overall organisational strategy and resources to ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

1.5 The Prudential Code sets out that, in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a Capital Strategy. The Capital Strategy sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

2 Executive Overview

2.1 The Capital Strategy sets out the framework for all capital investment decisions. The purpose of the Strategy is to make sure borrowing decisions are prudent, affordable and that sufficient focus is given to:

- Longer term sustainability
- Managing the risk attached to capital plans
- Avoiding exposure of public funds to unnecessary or unquantified risk
- Ensure capital expenditure is aligned with the Council's priorities
- Maximise the use of resources
- Provide a clear framework for decisions relating to capital expenditure
- Establish a corporate approach to generating capital resources

2.2 The Capital Strategy frames the programme of capital schemes which will enable the Council to meet its duties, vision and strategic priorities for Calderdale set out in the Corporate Plan and support the Council's transformation programme. Capital investment is required to support delivery, ensuring best use of assets, meet community needs and to enable modern and productive ways of working.

2.3 The Capital Investments made fall into three core themes:

- Investment to achieve improved outcomes.
- Investment to save.
- Investment to enable growth.

3 Calderdale's Approach to Maximising Capital Funding

3.1 Around three quarters of the Council's current Capital Programme is funded by Government grant or other external funding without calling upon the Council's resources, for example, the West Yorkshire Transport Scheme is fully funded by grant. We have been successful in strategically planning our pipeline of required investment. Capital grants are confirmed in the Programme as schemes and projects progresses through various approval stages. The Council is selective in the bids it makes for external funding by ensuring consistency with its corporate priorities and financial strategies.

3.2 To complement external funding and borrowing, the Council has a forward programme of capital receipts covering surplus property, planned release of accommodation and development opportunities. The Asset Management Team manages the disposals process drawing on expertise from the Council's Planning, Legal, Land & Property Services and Finance Services.

3.3 The Council's property policy is to rationalise the property portfolio (for example as part of the asset management review) to give fewer buildings, which are maintained to a better standard, which are fit for purpose and provide better access to services. The capital receipts generated from this rationalisation process along with other surplus assets are re-invested according to the Council's priorities.

3.4 Most grant funding is now un-ringfenced. Council policy is still to passport most of this funding to specific work programmes and therefore virtually all of this is directed towards major priority areas. All other schemes rely principally on external support (e.g. securing specific grant funding), prudential borrowing or the pool of capital receipts (funding raised by the sale of Council assets).

4 The Use of Capital Resources

4.1 The Council's approach to prioritising the use of capital expenditure and resources can be summarised as follows:-

(a) For major annual programmes of work funded by specific Government allocations or where Members have chosen to passport resources in Schools, Highways and Housing to maintain the allocation of grant funding broadly in line with Government allocations. Programmes for this work are determined once allocations are finalised and the funding is prioritised according to the overarching strategies and needs in those areas.

(b) To progress projects which are fully funded and which therefore will have no effect on the Council's overall capital financing position. This includes schemes which are funded by grants or which will be financed by prudential borrowing. Capital projects which are fully funded or self-financing, can be referred to Cabinet for inclusion in the capital programme at any time (subject to them still meeting the objectives of the Council). The appraisal process for schemes which are partly funded or for which there is no funding in place are considered as part of the prioritisation process outlined below.

(c) To prioritise all other schemes within the remaining level of capital resources available to the Council over the planned period.

5 Prioritisation of Resources

5.1 The Capital Strategy demonstrates and sets the framework for how the Council's Capital Programme supports its corporate priorities. In order to prioritise the allocation of the available resources Members will need to consider the extent to which schemes contribute to the Vision 2024 or the Council's agreed priorities:-

- Reducing inequalities
- Strong thriving towns and places
- Climate Action

5.2 Cabinet will also need to consider in this prioritisation underlying criteria around value for money, necessity (e.g. fire safety works) and customer impact. It is assumed that any schemes that come forward requesting borrowing approval, will be considered on the strength of the business case and risks presented.

6 The Approved Capital Programme and Capital Budget Forecast

6.1 The Council's capital strategy is to maximise the use of resources, to provide a clear framework for decisions relating to capital expenditure and to establish a corporate approach to generating capital resources.

6.2 Capital expenditure relates to spending on assets which are to be used by the Council over the long term. This includes the buying of equipment and the purchase, construction or improvement of land and buildings. The current programme includes provision for the Council's major projects including the West Yorkshire Transport Fund schemes. These key projects alone will result in an investment in the area well over £50m with the economic and environmental benefits of this investment continuing far into the future.

6.3 Forecast Expenditure

6.3.1 It is currently expected that over the 4 year period to the end of 2026/27 the Council will be spending around £239.3m on the schemes below. The figures do not include expenditure incurred in previous years or any additional expenditure yet to be approved.

- Major annual programmes of work funded by specific Government allocations, or where Members have chosen to "passport" resources:-
  - Schools – investment in maintenance and create sufficient SEN Places (£32.5m)
  - Housing (£40.9m)
  - Investment in the corporate estate (£6m)
  - Highways programmes including integrated & city region sustainable transport settlement (£35.1m)
  - West Yorkshire plus transport fund & transforming Cities funds (£16.4m)
  - Regeneration schemes including Town centres & high street investment (£57.8m)
  - New Halifax Leisure facility (£31m)
  - Various other one-off schemes (£12.6m)

6.4 Capital Resources

6.4.1 The main elements of capital financing are: -

i) Government-funded Grants

ii) Borrowing

iii) Revenue and Reserves

iv) Pooled Resources – Capital receipts

6.4.2 The largest proportion of Council capital spend is financed by Central Government grants. External funding is mainly targeted towards schools, road/transport and housing schemes. Other schemes are funded from borrowing or the pooling of capital receipts (funding raised by the sale of Council assets).

6.4.3 The cost of borrowing is charged to the revenue account as principal and interest. The latest Capital Programme allows for expenditure of £52.2m to be funded by borrowing.

6.4.4 On-going development with partners to provide a joined-up service is well established in Calderdale. The Council also works in partnership to maximise value for money and return on capital, examples of this are working with Heritage Lottery Fund (HLF), NHS organisations, West Yorkshire Combined Authority and Together Housing.

6.4.5 The proposed Capital Programme for the period 2023/24 to 2026/27 amounts to £239.3m. This includes the position reported to Cabinet 12th February 2024, the approved schemes for South East Calderdale and the flexible use of capital receipt 2024/25 in this report. A summary of the Programme by directorate can be seen below but a more detailed table setting out the individual schemes can be found in Appendix 6.

Proposed Capital Programme Summary 2023/24 to 2026/27

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adult Services and Wellbeing	6.4	7.8	4.5	0.0	18.7
Children & Young People's Services	5.6	3.2	25.0	0.0	33.8
Public Services/Corporate schemes*	0.5	3.6	0.0	0.0	4.1
Regeneration and Strategy**	55.6	54.4	54.4	18.3	182.7
Total Expenditure	68.1	69.0	83.9	18.3	239.3
Financed by:-					
Grants and Contributions	55.8	38.6	75.2	10.4	180.0
Revenue Funding & Reserves	0.1	0.1	0.0	0.0	0.2
Ring fenced/Prudential Borrowing	10.3	26.0	8.0	7.9	52.0
Use of Pooled Resources	1.9	4.3	0.7	0.0	7.1
Total Capital Finance Available	68.1	69.0	83.9	18.3	239.3
Current Surplus (+) /Deficit (-)	**0**	**0**	**0**	**0**	**0**

*This includes additional capitalised spend for transformational investment – flexible use of capital receipts
**The South East Calderdale Scheme has been included in here

6.4.6 Cabinet and Council approved a report on 12th and 14th February 2024 respectively to deliver South East Calderdale infrastructure to facilitate the delivery of the Garden Communities at Thornhills, Brighouse, and Woodhouse, Rastrick. The infrastructure will also support the delivery of Clifton Business Park through the provision of the Clifton Link Road.

6.4.7 Over the next few months, work to build the strategic narrative around capital will be further progressed. The Strategy will be developed with Cabinet to inform future updates on the Programme.

7 Schemes Under Development

7.1 The Capital Programme above extends to 2026/27, it is likely that government grants that currently support rolling programmes such as Disabled Facilities Grants and Education Basic Need will continue, however these are not yet reflected pending the next Spending Review confirmation.

7.2 Beyond this approved Capital Programme, a number of significant capital schemes are being developed to be brought forward for consideration during the next few years to support the Council in delivering its three key priorities - to reduce inequalities, provide strong thriving towns, support the Council's Climate Change agenda as well as the overall aim to make life better for everyone in the Borough.

7.3 It is anticipated that a further report will be brought for consideration later in the year in relation to the Clifton Business Park with the site designed to deliver a significant proportion of the Councils' Employment land on a key strategic site adjacent to the M62 at Brighouse. It is estimated to provide 1,300 permanent jobs by 2035.

7.4 The Council's Capital Programme already includes a number of West Yorkshire Plus Transport and Transforming Cities Fund schemes designed to improve transport links to facilitate growth and provide a cleaner alternative to car journeys. During the next few years' it is expected that schemes in excess of £165m will be approved via the West Yorkshire Combined Authority Assurance Process. The schemes will be funded by grants provided to the West Yorkshire Combined Authority by Government.

7.5 It is also anticipated that further capital investment is required to ensure that the Council will continue to provide key services. Further schemes are likely to be required to provide investment in the corporate estate, IT infrastructure, schools, transport, parking and sports.

7.6 Although a significant proportion of the Council's overall Capital Programme continues to be funded by government grants, and further significant external funding is expected to be approved to deliver schemes, it is clear that specific capital schemes would have to be funded by capital receipts and also borrowing, and that this will inevitably impact the Council's revenue budget.

7.7 Although schemes brought forward will clearly support the delivery of the Council's priorities, schemes will need to be prioritised and any revenue implication take into account the Council's overall financial position and be considered as part of the Budget Setting process.

7.8 In summary, the new schemes not yet factored into the Council's capital and revenue budgets or still under development are set out below:-

Schemes pending final funding approval

- West Yorkshire Combined Authority Schemes including the West Yorkshire + Transport Fund, Towns Fund & Transforming Cities Fund

Schemes Under Development

- Clifton Enterprise Zone
- CAFM Forward Programme including potential health & safety works and the roll-out of decarbonisation schemes
- Capital Maintenance Programme in the Council's and Schools' estates
- Other Schemes - these additional spend on the Highways Network, parking provision, transport fleet/electrification and investment in our IT & Digital Systems (Cyber Security, infrastructure improvements, network development and transformation).

7.9 Some work has been carried out to determine the potential cost of these schemes along with identification of any funding sources to offset this cost such as Government Grants and developer contributions. The table below shows this along with the impact on the revenue budget over the next five years in terms of the associated financing costs (principal repayments and interest).

Schemes	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s	Total 24/25 -28/29 £000s
Schemes Pending Final Approval						
WYCA Transport +, Towns Fund & Transforming Cities						
Total Expenditure	73,555	92,050	0	0	0	165,605
Less: Grants and Contributions	-73,555	-92,050	0	0	0	-165,605
Net New Borrowing	0	0	0	0	0	0
Other Schemes Under Development						
Total Expenditure	8,452	20,005	24,476	28,938	22,104	103,975
Less: Grants and Contributions	-1,800	-1,800	-6,283	-5,797	-3,384	-19,064
Net New Borrowing	6,652	18,205	18,193	23,141	18,720	84,911
Total Net New Borrowing	**6,652**	**18,205**	**18,193**	**23,141**	**18,720**	**84,911**
Principal Repayment		266	994	1,722	2,648	5,630
Interest		788	1,698	2,731	3,778	8,995
Estimated Total Financing Cost	**0**	**1,054**	**2,692**	**4,453**	**6,426**	**14,625**

7.10 If all of the schemes set out were to be agreed then this would equate to approximately £85m of new borrowing over the next 5 years over and above that currently planned in the capital programme. The on-going annual cost of this extra borrowing would rise to c£7m by 2029 and is currently not factored into the Council’s budget. This would translate to a net cost of borrowing ratio of 5.5% in 2026/27 compared to 3.6% in 2023/24 and would still be lower than our CIPFA Nearest Neighbours median of 6.9% for 2022-23.

8 Monitoring and Review of Capital Investment

8.1 Capital investment activities are reported four times a year to Cabinet giving details of its overall shape, the progress being made and the funding flexibility available over the forecast period to promote new schemes. The report focuses on the cost, associated funding of schemes, delivery dates and provides an update on other major issues especially on the more significant schemes within the programme.

9 Links to Other Strategies

9.1 The approved three-year Capital Programme includes £52.2m of forecast expenditure to 2026/27 to be funded by borrowing, which includes key projects such as the New Halifax Leisure facility and Garden Communities.

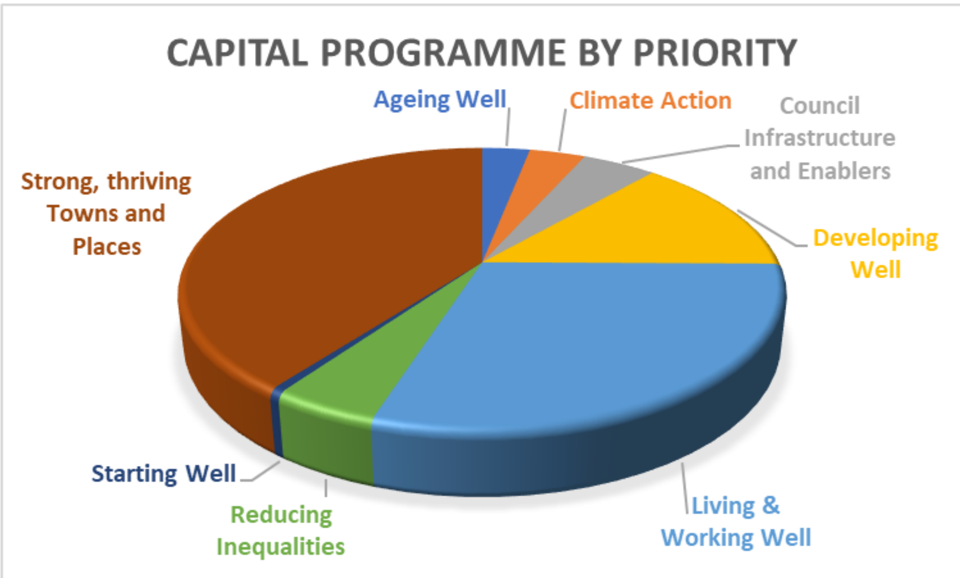
9.2 The Capital Programme outside of the externally funded schemes is financed mainly from borrowing. The revenue implications of the Capital Programme in terms of the cost of borrowing have been built into the MTFP. The MTFP makes assumptions about the level of interest rates that the Council will pay on its borrowings and the period over which it will repay debt (the Minimum Revenue Position or MRP). These assumptions around revenue related capital programme costs are in line with the Prudential Code and Treasury Management Strategy both of which form part of this report.

9.3 The capital strategy is subject to continuous review and has been prepared in collaboration with other directorates to ensure that it is consistent with the MTFP. The revenue implications of the Capital Programme have also been built into the MTFP.

9.4 The Corporate Plan sets out our strategic way forward, aims to take our distinctiveness, talent, enterprise, kindness and resilience to the next level and provides the foundation from which policy and use of resources is determined. To achieve our ambitions for Calderdale we prioritise resources to support those who experience the least positive life outcomes, recognising that there are some services that will always be provided for everyone. By targeting resources through our priorities, we aim to maximise the impact for people, communities and place.

9.5 To play our part in achieving the Vision 2024 (and emerging Vision 2034), we have three strategic priorities – reducing inequalities, creating strong, thriving towns and places, and climate action alongside the Wellbeing priorities. The pie-chart below shows the Capital Programme by priority.

Corporate Plan Priorities			Wellbeing Priorities
	Reducing Inequalities	Starting Well	
		Developing Well	
	Strong, thriving Towns and Places	Living & Working Well	
		Ageing Well	
	Climate Action		



9.6 If we continue the great work we do with other organisations and our local communities, we will be able to maximise impact. Reducing inequalities, Climate Action and Strong, thriving towns and places target the causes of deprivation. We will work with our communities to support those most affected into positive opportunities and good jobs where they can achieve their best. We will step up climate action in response to our declaration of a climate emergency in January 2019. We will continue to work with local communities and regional partners to protect our distinctive environment and build resilience to the ongoing impact of climate change.

9.7 The implementation of the additional homes in the Garden Communities, Clifton Business Park and West Yorkshire Plus Transport and Transforming Cities Fund schemes would specifically support the Council's priority to deliver strong, thriving towns and support the Climate Action agenda.

9.8 In the last decade, flooding in Calderdale has been much more frequent, causing significant damage. We are also seeing increasing numbers of land instability incidents which will inevitably affect our existing assets and often require us to take urgent and longer-term remedial action. This is a direct result of climate change, and Calderdale is especially vulnerable to flooding because of its steep-sided valleys and riverside communities. Although we can never stop floods, we will continue to reduce the risk across the borough and will drive forward our ambition to become a zero-carbon place by 2038, with significant progress by 2030.

9.9 We will continue to promote and build strong, thriving towns and places. We will achieve this by supporting our local economy and ensuring a vibrant, independent retail offer, diverse local businesses and a rich cultural and artistic life that makes the most of Calderdale's heritage and landscape. Through the Local Plan, we will work with partners to deliver more homes for our current and future residents. This focus on homes shows the links between our priorities. Meeting the crucial need for affordable housing will support work to tackle poverty. And with environmental awareness and planning principles built in from the outset, it will also help us to address the climate emergency.

Flexible Use of Capital Receipts **Appendix 1a**

1.1 The proposals within this Flexible use of Capital Receipts Strategy have been prepared based on a capitalisation direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of Costs as Capital Expenditure.

1.2 The Local Government finance settlement extends the opportunity for local authorities to use capital receipts to fund the revenue cost of transformation in 2024/25. Council approval of the use of this flexibility is required on an annual basis, with plans published on the Council's website and notification of planned use sent to The Department for Levelling Up, Housing and Communities (DLUHC).

1.3 The Statutory Guidance defines transformation costs as follows:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

1.4 The Guidance sets out examples of qualifying expenditure which includes "funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation" and it is for this purpose that the Council is proposing to use Capital Receipts in 2024/25, where required. The Council maintains the ability to use new year capital receipts to support capital expenditure on short life assets.

1.5 It is proposed that the Council agrees a strategic intent to make use of the flexibility in 2024/25, and future years if there is further extension. An estimate of use has been factored into the Capital Programme and is limited to the existing capital receipts targets aligned to the asset disposal plans.

1.6 To support the Council's Transformation to deliver the improvement and efficiencies set out in the Council's budget for 2024/25 and future years, it is proposed that any associated one-off costs are funded from capital receipts. The legitimacy of this use will be determined by the s151 Officer in order to ensure that it meets the requirements set out by the Secretary of State.

<table>
<tr><th>Estimate Use of Capital Receipts Flexibilities 2024/25</th><th>Cost 2024/25 £000</th><th>Estimated Efficiency or Saving £000</th></tr>
<tr><td>Cost of restructuring and rationalisation</td><td>700</td><td rowspan="4">12,000</td></tr>
<tr><td>Digital and IT enabling efficiency</td><td>500</td></tr>
<tr><td>Cost of implementing budget savings in MTFP</td><td>200</td></tr>
<tr><td>Transformation Projects</td><td>600</td></tr>
</table>

1.7 The prudential indicators show that this strategy is affordable and will not impact on the Council's operational and authorised borrowing limits, nor will the council's Capital Financing Requirement be affected by way of either reducing debt or financing capital expenditure. The estimates of capital expenditure will increase by £2m in 2024/25.

1.8 Implementation of this Strategy will be monitored as part of regular financial reporting arrangements.

APPENDIX 2

TREASURY MANAGEMENT AND NON-FINANCIAL INVESTMENT STRATEGY 2024/25

1. Introduction and Background

1.1 The Authority operates under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Local Authorities.

1.2 The CIPFA Code was last amended in 2021 and the main amendment related to investment in commercial property with CIPFA setting out that Local Authorities must not borrow from the Public Works Loan Board (PWLB) to invest primarily for financial gain.

2. Changes to the current Treasury Management Strategy

2.1 The policy is assessed each year to ensure it complies with current legislation and that it maximises the financial benefits of the Council's borrowing and investing activities at the lowest possible risk. A review against the current policy has concluded that no changes are required.

3. Treasury Management Strategy for 2024/25

Interest Rates and the Economy

3.1 In order to maintain price stability the Government has set the Bank of England's Monetary Policy Committee (MPC) a 2% target for Consumer Price Index (CPI) inflation.

3.2 Currently, CPI inflation is running at 4% (December 2024) due largely to food and fuel prices and the war in Ukraine. Inflation is expected to fall to around 3.6% in 2024 and then down to the 2% target in 2025. The MPC's main tool to deal with heightened inflation would normally be to raise the base interest rate.

3.3 The Bank of England's base rate started the year at 4.25% (it increased from 4.0 % on the 2 February 2023). It was then increased on the 11 May 2023 to 4.5%, it was then increased again on the 22 June 2023 to 5% and finally it was increased on the 3 August 2023 to 5.25%. The prediction is that the base rate will remain at this level for now to see if the increases so far done will have any effect in reducing inflation.

3.4 Although it is not possible to accurately predict where the base rate is heading it is likely that the Bank of England will leave rates where they are in the short term in its approach of trying to reduce unacceptably high inflation.

3.5 Any long term borrowing is at present carried out through the Public Works Loan Board (PWLB). The benchmark period that we compare against is 24.5 to 25 years (being mid-way between the shortest and longest borrowing periods available to the Council). During this financial year 2023/24, the 24.5-25 year rate has been on average 5.58%.

Basic Strategy

3.6 The overall strategy is to adhere to the Treasury Management Policy and to the Prudential Indicators. Any borrowings or investments carried out will be within the limits as set out in those policies.

3.7 At present any long-term borrowing is only carried out to fund the Capital Programme and Capital Financing Requirements. The primary source of borrowing is made from the PWLB. The Treasury Policy facilitates borrowing from other sources, within the parameters set to ensure appropriate risk management. Other long-term lenders available to the Council include the Local Authority Bond Agency which has now started, however they normally lend amounts much higher than our requirements.

3.8 The long-term rates are currently higher than we would consider normal which means that we are maximising internal borrowing (use of cash balances) and deferring long term borrowing in 2023/24 until at least 2024/25 when the forecast is that the base rate might be reduced which would have the knock on effect of reducing long term rates. This is based upon advise from our Treasury Advisors, Link and decisions on timing of borrowing taken by th Director Resources and Transformation.

3.9 It is proposed to keep a watching brief on borrowing requirements and interest rate movements to borrow at the most opportune time. In the absence of clear evidence to support assumptions of movements in interest rates, the strategy will be to spread any long-term borrowings over the year (i.e. pound cost averaging to minimise the risk of exposure to sudden fluctuations in interest rates).

3.10 It is also good practice for authorities to have smooth debt maturity profiles in order to reduce their exposure to a substantial borrowing requirement in a particular period in the future when interest rates might be high. The Council's current loans will mature relatively evenly in the future so the primary consideration on when to borrow money to will be based on which periods offer the best overall combination of low interest rates and long-term certainty.

3.11 For information, the Authority's predicted debt profile can be found in Appendix 7 (N.B. this shows only those years in which the debt will mature). There are gaps between the years in the very long term as it is only relatively recently that the PWLB have offered rates from 30 to 50 years so there will be opportunities to fill these gaps when borrowing in future years.

4. Commercial Property and Investment Strategy

4.1 Following concerns expressed by the National Audit Office and Public Accounts Committee, the Government has recently issued statutory guidance on local authority investments, which require local authorities to publish an annual investment strategy. The new guidance covers the following types of investment.

4.2 Specified Investments – these are short term financial investments with Government, local authorities, parish councils or rated institutions. These are already covered by the Treasury Management strategy and policy. Non-Specified investments – these are financial investments in unrated institutions, such as small building societies and are also covered in the treasury management policy and strategy.

4.3 Investments in the CCLA Local Authority Property Fund – as part of Budget Council savings which went to Cabinet on the 27th February 2017, it was approved that the Council would generate additional income in 2019/20 and onwards from a longer term investment strategy up to a maximum of £5 million. To this end the Council has invested £5 million with the CCLA Local Authority Property Fund. This investment is currently earning the Council approximately 4.4% per annum as opposed to the current base rate of 5.25% which is roughly earned on our short-term investments. It should however also be noted that the CCLA fund is complimentary to our cash investment portfolio as interest rates are changeable and the CCLA fund has provided a more predictable return in the past.

4.4 As part of the investment strategy the Council will be required to publish the total amount of loans it is prepared to make in any one year and how it will deal with any credit losses. These loans could be to community organisations but also local authority wholly owned companies. The strategy should also include the basis for determining the rate of interest which should be charged on these loans which need to reflect the level of risk and liquidity of them. It is recommended that a limit on the amount of loans be set at £10 million for 2024/25 to provide full flexibility for the Council should it be required.

4.5 The strategy also needs to incorporate a set of criteria against which any loan applications should be assessed including for example to support local regeneration, economic benefit, in response to local market failure including the resilience of anchor organisations or for financial yield/profit. At this stage it is recommended that these criteria be used to determine any applications. The minimum rate of interest for these types of loan should be at least 1% above the rate at which the Council can borrow from the PWLB for the appropriate period.

APPENDIX 3

TREASURY MANAGEMENT POLICY

Treasury Management Policy Statement

1. The Authority defines Treasury Management activities as:-
   The Management of the Local Authority's investments, cash flows, its banking, money market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

2. The Authority 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 Authority.

3. The Authority 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 best value in Treasury Management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

1 Risk Management

The CIPFA Code of Practice identifies eight Treasury Management risks which are:-

A. Credit and counterparty risk

There is a risk of failure by a third party to meet its contractual obligations to the Authority. Excepting the Bank of England and the UK Government (which includes the Government's Debt management office for whom we do not set a limit) we minimise this risk by having limits for investments to the approved organisations below.

When referring to ratings it should be remembered that investments are made based on an organisation's rating at the time of the investment. However, Banks or Building Societies can be downgraded by the ratings agencies whilst we are holding the investment prior to it being repaid to the Council. This risk is mitigated by dealing with highly rated Banks or Building Societies. Although the downgrading of a counterparty might only be to the next level down (which still might be a high rating) if it is not as high as the Council demands no further investments will be made to that counterparty until such time as its rating is revised back upwards to meet the Council's policy.

1 External specified investments are to be limited for a period of up to 1 year as follows:

a) MAXIMUM £10 MILLION

Specifically any of the four big clearing banks (HSBC, Royal Bank of Scotland, Barclays and Lloyds) with a short term rating of at least F1 by Fitch and P-1 by Moody's combined with assets over £400 billion.

b) MAXIMUM £8 MILLION

(i) Any other institution authorised under the Banking Act 1987 with the minimum short term ratings of F1 from Fitch and P-1 from Moody's combined with assets over £100 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £100 billion combined with the minimum short term ratings of F1 from Fitch and P-1 from Moody's.

c) MAXIMUM £6 MILLION

(i) Any other institution authorised under the Banking Act 1987 with any of the following combined ratings from Fitch and Moody's F1/P-1, F1/P-2 and F2/P-1 also combined with assets over £20 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with any of the following combined ratings from Fitch and Moody's F1/P-1, F1/P-2 and F2/P-1 also combined with assets over £20 billion.

(iii) Other Local Authorities (£6 million to each Authority) with discretion to exclude any that we deem to be a risk.

d) MAXIMUM £4 MILLION

(i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F2 from Fitch and P-2 from Moody's combined with assets over £5 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £5 billion combined with at least short term ratings of F2 from Fitch and P-2 from Moody's.

e) MAXIMUM £2 MILLION

(i) Any other institution authorised under the Banking Act 1987 which are only rated by one of our ratings agencies should be at least short term rated F2 by Fitch or P-2 by Moody's combined with assets over £1 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) which are only rated by one of our ratings agencies should be at least short term rated F2 by Fitch or P-2 by Moody's combined with assets over £1 billion.

f) MAXIMUM £5 MILLION ON CALL

We currently have a call account facility with the Council's own bankers (Nat West) which means that we have instant access to our funds at any time. We propose to limit the amount in the call account to a maximum of £5 million at any one time with the flexibility to go to £20 million when deemed necessary by the Head of Finance in exceptional circumstances.

2 External non-specified investments are to be limited for a period of up to 1 year as follows.

a) MAXIMUM £2 MILLION PER BUILDING SOCIETY WITH A MAXIMUM OF £8 MILLION IN TOTAL

Any Building society authorised under the Banking Act 1987 which are not rated by either of our ratings agencies combined with assets over £1 billion. These investments are termed as non-specified investments.

The Authority currently uses both Fitch and Moody's which are recognised as "relevant rating agencies" by the Securities and Futures Authority and are two of the three major international rating agencies and we refer to their websites every time we carry out an investment. The short term ratings of both companies which apply to our policy are set out below:-

	MINIMUM	MINIMUM		
	FITCH	MOODY'S		
Limits	Short term	Short term	Assets over	Grade Meaning
Maximum £10 million	F1	P-1	£400 billion	Very strong grade
Maximum £8 million	F1	P-1	£100 billion	Very strong grade
Maximum £6 million	F1/F2	P-1/P-2	£20 billion	Very strong grade
Maximum £4 million	F2	P-2	£5 billion	Strong grade
Maximum £2 million	Either F2	Or P-2	£1 billion	Strong grade

NOTE TO THE ABOVE If only one of the agencies actually rates a certain Bank or Building Society then that single rating will have to be at least F2 by Fitch or P-2 by Moody's.

3 Country Limits

a) MAXIMUM £10 MILLION

The criteria for lending to foreign-domiciled financial institutions would be firstly that the country in question would have to be rated AAA by Fitch and Aaa by Moody's. Secondly, the bank in that country would have to comply with the external specified policy above. Thirdly they would have to be incorporated within the UK or allowed to accept deposits through a branch in the UK. The maximum limit of £10 million per country would then apply. N.B. this limit doesn't apply to UK domiciled banks and building societies.

4 Group Limits

Any Bank or Building Society that we deal with which are owned by another one of our Counterparties will be subject to a group limit which is set at the highest limit attained by the parent Bank or Building Society. This means that if the parent company qualifies for a limit of £10 million and its subsidiary qualifies for a limit of £6 million then the limit for the two organisations together would be set at £10 million.

5 Other external investments for a period of up to 1 year as follows:

(i) Gilt-edged Securities.

(ii) Securities admitted to the official list of the stock exchange and in respect of which, all repayments of principal and interest are guaranteed by Her Majesty's Government.

(iii) Money Market Funds

(iv) Certificates of Deposit

6 External investments for a period longer than 364 days

Investment in the CCLA managed Local Authority Property Fund up to a maximum initial investment limit of £5 million.

7 External borrowings of periods up to 1 year

The Authority will only enter into short term external borrowings with the following:

(i) The Bank of England or any other institution authorised under the Banking Act 1987.

(ii) Building Societies (within the meaning of the Building Societies Act 1986).

(iii) Persons or bodies listed in part II of schedule to the Local Authorities (Capital Finance approved investments) regulations 1990. These bodies are Local or Public Authorities and Public Corporations.

B. Liquidity risk

The Authority will have an effective cash flow forecasting and monitoring system which will identify the extent to which the authority is exposed to the effects of potential cash flow variations and shortfalls. Also the authority has access to the money markets and an overdraft facility with our bankers sufficient to meet most circumstances.

C. Interest rate risk

The Authority will obtain reliable and informed information and advice from brokers, the media and the internet on the likely future courses of interest rates, to enable us to assess the extent to which movements may impact on the authority and to permit the effective management and control of its exposures to the same. The Authority is required to set fixed and variable interest rate exposure limit indicators on its borrowings and investment principal sums outstanding which for 2024/25 are recommended as follows:

1 Fixed rate exposure

(i) For Authorities that have no investments fixed debt would remain within 100% of net debt. However, Calderdale has short term investments due to a number of factors such as reserves and balances and a beneficial cash flow position at certain times of the year. Due to the formula to calculate this indicator, the Authority's fixed debt can exceed 100% of its net outstanding principal sums (i.e. fixed debt will be more than net overall debt).

(ii) Therefore it is recommended that the Council sets an upper limit on its fixed rate exposure for 2024/25 of 115% of its net outstanding principal sums. This takes account of both Calderdale's particular expected position whilst providing the flexibility to take advantage of interest rate movements whilst limiting any potential exposure.

(iii) If future Council decisions on expenditure are taken and the levels of investments fall significantly then a further report to members with a revised upper limit on fixed interest rate exposure may be necessary.

2 Variable interest rate exposure

(i) It is further recommended that the Council sets an upper limit of its variable interest rate exposures for 2024/25 of 15% of its net outstanding principal sums. Again this will enable us to retain sufficient flexibility to cover our day to day obligations and take advantage of interest rate movements within an overall exposure limit.

D. Exchange rate risk

All transactions are conducted in GB pounds so therefore there is no exchange rate risk to the Authority.

E. Refinancing risk

The Authority will keep reliable records and forecasts of the terms and the maturities of its borrowings, capital projects and partnership funding, to allow the authority to plan the timing of, and successfully negotiate appropriate terms for its refinancing. Also to aid this, the Council will set upper and lower limits for the maturity structure of its borrowings so that when taking long term borrowing decisions the Council will consider the repayment date of new and existing loans. Repayable loans as a percentage of total debt will be kept within the limits indicated for the following periods.

Period	Lower limit	Upper limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	50%	100%

These limits will provide a high degree of long-term stability whilst retaining the flexibility of being able to smooth out the maturity profile of the Authority's debt when interest rates are in our favour so that the Council is not over exposed to the risks of re-financing large amounts of borrowing in periods when interest rates might be high or uncertain.

F. Legal and regulatory risk

This policy is an up to date record of our powers, and as the content describes, we do adhere to the CIPFA Code of Conduct for Treasury Management, relevant Finance Acts and Local Government Acts. We do issue copies of this policy to our counterparties if requested. We also only enter into transactions with counterparties as defined in A above (credit and counterparty risk).

G. Fraud, error, corruption and contingency management

To combat fraud, error and corruption we use the following control environment to create and maintain an effective audit trail.

(i) A full analysis of all transactions and processes are kept for 7 years.

(ii) We report to the relevant committee every 6 months on the progress of Treasury Management to keep members informed.

(iii) Members of Audit Committee and the Portfolio Holder for Resources will be kept fully informed of appropriate issues in the Treasury Management function.

(iv) There is a stringent delegation of duties in that one person initiates the transaction, a different person checks it and a third person authorises it. We also have back up staff in case of staff absence.

(v) An electronic version (with back-ups) is kept of all transactions.

(vi) Sufficient insurance arrangements have been made to cover the Authority in the event of fraud or corruption.

(vii) An annual audit of Treasury Management is carried out by internal audit as part of their review of the Council’s core financial systems. In addition there is a system of spot checking of the Council’s investments to test compliance against the Treasury Management policy.

H. <u>Market risk</u>

The principal sums invested at present are set and are not subject to market fluctuations (apart from any investment in the CCLA Local Authority Property Fund).

I. <u>Performance management</u>

This Authority is committed to the pursuit of value for money in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management policy statement.

J. <u>Decision making and analysis</u>

This Authority in respect of every decision made will:-

(i) Be clear about the nature and extent of the risks to which the Authority may become exposed.

(ii) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(iii) Be content that the documentation (as contained in the daily treasury management working procedures) is adequate both to deliver the Authority’s objectives and protect the Authority’s interests, and to deliver good housekeeping.

(iv) Ensure that third parties are judged satisfactory in the contexts of the Authority’s creditworthiness policies, and that limits have not been exceeded.

(v) Be content that the terms of any transaction have been fully checked against the market, and have been found to be competitive.

Approved instruments, methods and techniques

K. Raising Capital Finance

Apart from the use of leasing, no forms of finance shall be used other than the following.

(i) From the National Debt Commissioners, the Public Works Loan Board (PWLB) or other Government agencies. The PWLB has been and will continue to be the main source of the Council's longer term borrowing.

(ii) From any institution authorised under the Banking Act 1987 or from the Bank of England. This will take the form of both short term loans and also long term loans.

(iii) From any other Local Authority or Public corporation along with any associated Pension funds. This will mainly take the form of short term loans.

(iv) From an overdraft negotiated with the Council's own bankers. The current overdraft limit is £500,000 and interest is charged at 1% above the base rate. This facility is used sparingly either when temporary borrowing is difficult or when the sums involved are small (i.e. less than £500,000).

(v) Loan instruments not transferable by delivery, such as Bonds, Mortgages or any other document acknowledgement that money has been lent to the Authority.

The Council does not currently engage in any other form of borrowing available to it.

L. Organisation, clarity and segregation of responsibilities and dealing arrangements

(i) Full Council

Responsible for the setting of and changes to the Treasury Management policy also receiving and approving the following reports, Treasury Management Strategy and Prudential indicators and borrowing limits in advance of the year.

(ii) Cabinet

Responsible for recommending a treasury management policy statement, treasury management capital, Investment & treasury management strategies and Prudential indicators and borrowing limits to Council for final approval.

(iii) Audit Committee

Scrutiny of Treasury Management policy and performance including a mid-year review and annual report after the close of the financial year.

(iv) Director of Resources & Transformation

a) Submitting and reviewing treasury management policy/practices
b) Reviews the performance of the treasury management function.
c) Make decisions on investments and borrowings exceeding 1 year.
d) Report to elected Members as provided for in section M below.
e) Ensure that Treasury management staff receive adequate training, and the effective division of responsibilities within the treasury management function.
f) Ensure all treasury management staff are aware of and have access to a copy of the Bank of England's "London Code of Conduct".
g) Ensure the adequacy of internal audit, and liaise with external audit.
h) Recommends the appointment of any external service providers.

(v) Service lead for Accountancy

a) Assess long term borrowing requirements.
b) To manage debt in accordance with the Treasury Management Strategy.
c) Manages the overall treasury management function.

(vi) Senior Finance Officer (Treasury Management)

a) Ensure that the day to day activities are carried out in accordance with this statement.
b) Decide and negotiates borrowings and investments on call or for fixed periods.
c) In consultation with the Service lead for Accountancy, decides and negotiates borrowings and investments for fixed periods up to one year.
d) Carries out the longer term borrowing and investments as approved by the Head of Finance.
e) Negotiates and arranges leasing for the Council on various items of equipment.

In the absence of the Senior Finance Officer (Treasury Management), all duties will pass to the Service lead for Accountancy with the exception of the day to day activities, which will be carried out by the Finance Officer who has been delegated to cover for treasury management in consultation with the Service lead for Accountancy.

In the absence of the Service lead for Accountancy, all duties will pass to the Director of Resources & Transformation.

M. Reporting Arrangements

The Director of Resources & Transformation will submit the following reports to Committee:-

a) Prior to the beginning of each financial year, a report to Cabinet and Council setting out the Capital strategy, Investment strategy, Debt limits, Prudential Indicators and policy for the Treasury management function.

b) A mid-term review report to Audit Committee for the 6 months to 30th September each year setting out the Council’s activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.

c) An annual report to Audit Committee setting out the Council’s activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.

d) Reports to Audit committee as appropriate, in consultation with the Chair of Audit Committee and Portfolio Holder for Resources covering compliance of and improvements to the Treasury Management strategy and policies.

N. Budgeting, Accounting and Audit Arrangements

a) The Authority will ensure that its auditors and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices. Internal audit will also carry out an annual review of loans and investments reporting any variance from normal practice.

b) The Director of Resources & Transformation will prepare as part of the revenue budget process an annual budget for treasury management and will exercise effective control over the budget and report to members via the Authority’s overall revenue monitoring.

O. Cash Flow Management

a) With the exception of petty cash imprests and money held in schools’ own bank accounts, all money in the hands of the Council would be aggregated for the purpose of Treasury management. Cash flow projections will be prepared before the start of the financial year and updated on a regular basis.

b) The main objectives to be achieved are:

(i) Borrowing

1. To manage the Council's debt maturity profile.
2. To forecast average future interest rates and to borrow accordingly.
3. To use predominantly fixed rate borrowing in order to maintain certainty and stability in the budgeting process.
4. To reschedule debt where appropriate in order to take greater advantage of interest rate movements.

(ii) Investments

1. To use the Council's balances to minimise external borrowings.
2. Only to externalise the Council's funds and balances where to do so would generate a level or return significantly greater than could be secured by internal investment.
3. When investing we will ensure that adverse market fluctuations on the Authority are minimised.

P. Money Laundering

This Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, any suspicions will be reported to the Lead for Accountancy, the Head of Audit and upwards to the Head of Finance.

The Authority's Treasury Management function protects itself from the possibility of being involved in a money laundering transaction as follows:-

(i) Treasury management transactions are not in physical cash and the Authority has a policy of not accepting cash of more than 15,000 Euros equivalent in one transaction. This is set in S151 Standards.

(ii) The Authority restricts its transactions to the institutions of bodies listed in part II of the schedule to the Local Authorities Regulations 1990, the Bank of England, any other institution authorised under the Banking Act 1987 and Building Societies.

(iii) Most transactions (apart from PWLB) are conducted through brokers who have their own procedures for identifying and recording third party identities.

Q. Staff Training and Qualifications

This Authority recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Any training needs will be identified informally as they arise and formally as part of the Council's Performance Appraisal Scheme.

The Director of Resources & Transformation will ensure that the Council member tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

R. Policy on External Service Providers

This Authority only makes use of external service providers for money-broking who act as intermediaries, making introductions between ourselves and the Banks and Building societies etc. who we borrow or lend to. We also make use of external advisors called Link. No other external managers will be used without prior to approval of Cabinet/Council.

S. Corporate Governance

This Authority is committed to the pursuit of proper corporate governance accordingly the Treasury Management function will be undertaken with openness and transparency, honesty, integrity and accountability.

(i) We will adopt the principles and policies promoted by CIPFA in their code of practice which will deliver the framework for demonstrating openness and transparency in the Authority's treasury management function.

(ii) The Authority will publish and give free access to information about its Treasury Management transactions and any other documents connected with its Treasury management activities.

(iii) The Authority will establish clear treasury management policies, the separation of roles in treasury management and the proper management of relationships both within and outside the Authority to establish the integrity of the function.

(iv) The Authority will establish robust treasury management dealings and an absence of business favouritism, which will create keen competition in treasury management, this will lay the groundwork for fairness.

APPENDIX 4

Minimum Revenue Provision Policy

1. Background

1.1 In accordance with the Local Authorities (Capital Finance and Accounting) (England) regulations 2003, the Authority is required to pay off an element of accumulated General Fund capital expenditure financed from borrowing through an annual revenue charge known as the Minimum Revenue Provision.

1.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by MHCLG (now renamed DLUHC) in 2018. The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

1.3 The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

1.4 The Guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to full Council for approval. The Guidance also allows the Authority to change the MRP policy **at any time during the year.**

2. Method for calculating MRP

2.1 The MRP policy was revised in 2023, and this method remains the most prudent at this time as it provides flexibility to allow the most appropriate method under the asset life basis to be applied, i.e. either straight-line or annuity in the calculation of MRP.

2.2 The MRP guidance allows the Authority to review its MRP policy every year and set a policy that it considers prudent at that time. The impact of the any revised MRP calculation methodology will be kept under regular review to ensure that the annual provision is prudent.

2.3 It is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method basis. Either a straight-line or annuity method will be applied for the MRP calculation.

- Unsupported prudential borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. Either a straight-line or annuity method will be applied for the MRP calculation.

- On an annual basis the Section 151 Officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium/long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependent on this review, the Section 151 Officer will adjust the annual MRP charge by making Voluntary Revenue Provision (VRP) or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.

APPENDIX 5

PRUDENTIAL INDICATORS 2024/25-2026/27

This section of the report sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

1. Introduction and Background

1.1 It is required by Part 1 of the Local Government Act 2003 and related Prudential Code for Capital Finance in Local Authorities that the Council set these borrowing limits and indicators before the forthcoming year.

1.2 The Authority is also required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to prepare an annual statement of their policy on making MRP for submission to full Council.

1.3 Calderdale Council is required to have regard to any statutory guidance issued by the Secretary of State, which is the Guidance on Local Government Investments.

1.4 The CIPFA Code was last amended in 2021 and the main amendment concerned investment in commercial property with CIPFA setting out that Local Authorities must not borrow from the Public Works Loan Board (PWLB) to invest primarily for financial gain.

Changes to the Prudential Code from last year's report

2.1 There are no changes from last year's report to Cabinet on the 16th January 2023.

2.2 The principle that prudential borrowing will only be undertaken where it is funded by savings or existing budgets has already been firmly established within the Council's medium term financial planning framework.

2.3 Therefore, the purpose of this report is to set the required prudential indicators for Calderdale for a three year period beginning 2024/25.

Process for Setting the Prudential Indicators

2.4 Before the start of each financial year the Section 151 Officer must submit a report to Cabinet, for recommendation to Council, setting prudential indicators for the forthcoming and following two years.

Nature of the Prudential Indicators

2.5 Apart from the CIPFA Code of Practice for Treasury Management in the Public Services (which has already been adopted by Calderdale) there are three other categories of prudential indicators:

1) Estimates (which are calculated as part of the budget setting process).
2) Actuals (which have their source in the latest audited financial statements).
3) Limits (i.e. parameters that should not be breached without management action).

2.6 Estimates and limits are rolling and re-set each year. Actuals are fixed as they use figures contained within the Authority's statement of accounts.

Monitoring and Review of Prudential Indicators

2.7 The Director of Resources & Transformation will monitor against all forward looking indicators (i.e. estimates) and these forecasts will be updated and reported as appropriate within the current reporting and budgeting framework. There should be no need to amend actuals once they have been included within this prudential indicators report.

2.8 Limits will be monitored constantly throughout the year. Where, in the Director of Resources & Transformation's opinion, there is a danger the limits will be breached, a report will be brought to Members. If this situation arises the basic options available are to raise the limits already set or instigate management action to ensure that the current limit is not breached.

2.9 The Director of Resources & Transformation will highlight any unusual deviations from estimates and limits in the mid-term and outturn Treasury Management reports to Audit Committee.

3 OPTIONS CONSIDERED

3.1 The Code does not include suggested indicative limits or ratios. These are for each Local Authority to decide itself (subject to any overriding powers retained by Central Government). The following are the indicators recommended by the Director of Resources & Transformation and are based on the principles agreed in the Medium Term Financial Strategy and the associated consideration of clear affordability constraints:

4 ESTIMATES AND ACTUALS

Capital Expenditure

4.1 The Prudential system requires the inclusion of an estimate of future years' capital expenditure. Capital expenditure can only be incurred where it is financed from grants/contributions, capital receipts or via borrowing.

4.2 As the Council's strategy is to fully utilise all funding available to it, any forecasts made will vary in line with Government allocations, if any, and so the forecast below will be updated as the funding base changes via the capital monitoring report to Members during the year.

4.3 The actual capital expenditure that was incurred in 2022/23 was £57.7m and estimates of capital expenditure to be incurred for the current and future years are:-

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m*
Capital Expenditure	68.1	69.0	83.9	18.3

*This covers the schemes within the proposed Capital Programme. The figure for 2026/27 is yet to include government funded schemes or new schemes under development.

4.4 The above estimates will be monitored and the Programme adjusted in line with actual allocations to ensure that the forecast remains prudent and consistent with overall budget strategies.

Ratio of Financing Costs to Net Revenue Stream

4.5 Financing costs are made up of interest payments, investment income and the statutory amount required for the repayment of debt (MRP). The net revenue stream is the amount to be met from Government Grants and local taxpayer.

4.6 This indicator is intended to show the proportion of the Authority's resources that are used to finance capital assets and is based on estimates of capital expenditure contained within this report.

4.7 The actual ratio of financing costs to net revenue stream for 2022/23 was 4.5%. The estimates of the ratio of financing costs to net revenue stream for the current and future years are:-

	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Finance costs as a % of net revenue stream	3.6	3.7	4.3	4.3

4.8 What this indicator highlights is that the ratio is increasing from 2023/24 (mainly due to higher Minimum Revenue Provision (MRP) charges as a result of a larger capital programme and rising borrowing costs due to interest rates going up) before flattening out by 2026/27 as increases in the net revenue stream rise in tandem with increased borrowing costs.

The Capital Financing Requirement (CFR)

4.9 The capital financing requirement includes all relevant capital expenditure already incurred and due to be incurred over the period, and reflects the Authority's underlying need to borrow for capital purposes.

4.10 The actual capital financing requirement as at 31 March 2023 was £238.3m. Estimates of the end of the year capital financing requirements for the Authority for future years are:

2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
234.6	256.0	258.3	260.4

4.11 The Capital financing requirement increases in 2024/25 over the previous year as new capital investment is delivered rising less sharply towards the end of the period.

5 LIMITS

Net Borrowing and the Capital Financing Requirement

5.1 In contrast to the day to day cash flows of the Authority, the Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes.

5.2 In order to ensure that over the medium term net borrowing will only be for a capital purpose, net external borrowing should not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next three financial years.

5.3 The Director of Resources & Transformation reports that the authority had no difficulty meeting this requirement in 2022/23 as the Capital Finance Requirement was £238.3 million and external borrowing stood at £154 million (incl. the PFI liability), and no difficulties are envisaged for the current or future years. This view takes into account current commitments and existing plans.

Operational Boundary for Debt

5.4 The operational boundary reflects the Director of Resources & Transformation's estimate of the most likely, but not worst-case scenario, of external debt levels taking into account estimates for planned capital expenditure and cash flow requirements for all purposes.

5.5 Sustained breaches of the operational boundary limit would be used by the Director of Resources & Transformation to alert the Authority to the possibility of an imminent breach of the authorised limit. Council is asked to approve the following normal operational boundary for external debt for the next three financial years.

	2024/25 £m	2025/26 £m	2026/27 £m
Borrowings	164	166	169
Other Long term Liabilities (i.e. PFI)	20	17	13
Total Operational Boundary	**184**	**183**	**182**

Authorised Limit for Debt

5.6 In respect of its external debt, it is recommended that the Council approves the following maximum authorised limits for its total external debt gross of investments for the same time period.

	2024/25 £m	2025/26 £m	2026/27 £m
Borrowings	171	173	176
Other Long term Liabilities (i.e. PFI)	20	17	13
Total Authorised Limit	**191**	**190**	**189**

5.7 These limits are based on the operational boundary with the addition of sufficient headroom for unusual cash movements.

5.8 Within the figures, borrowing and other long-term liabilities are separately identified. Members have delegated authority to the Director of Resources & Transformation to effect movement between borrowing and other long-term liabilities in order to retain flexibility and best value for money for both the operational boundary and the authorised limit. However, any changes deemed necessary by the Director of Resources & Transformation will be reported to the Council at its next meeting following the change.

5.9 The Council's actual external debt at 31 March 2023 was £129.7m (in addition to the PFI scheme expenditure) and is expected to increase by £9 million during 2023/24 due to new borrowings of £12.2 million less repayment of existing debt for £3.2 million. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary since the actual external debt reflects the position at one point in time.

5.10 Loans – as part of the investment strategy the Council will be required to publish the total amount of loans it is prepared to make in any one year and how it will deal with any credit losses. These loans could be to community organisations but also local authority wholly owned companies. This will need to incorporate the planned loans to the Council's development company. The strategy should also include the basis for determining the rate of interest which should be charged on these loans which need to reflect the level of risk and liquidity of them.

5.11 It is recommended that a limit on the amount of loans be set at £10 million per year and that the minimum rate of interest should be at least 1% above the rate at which the Council can borrow from the PWLB for the appropriate period. The limit to be applied to loans and the minimum interest rate to be charged will be reviewed and agreed each year as part of this report.

6. Conclusion and Summary

6.1 The Authority is required to abide by the prudential code and the resulting limits it sets itself. Calderdale is not, however, bound to the indicators set in this report if they are subsequently found not to be in the interests of the Authority. In these circumstances a report will be brought to Members to either amend the limits already set or to recommend the instigation of management action to ensure that the current limits are not breached.

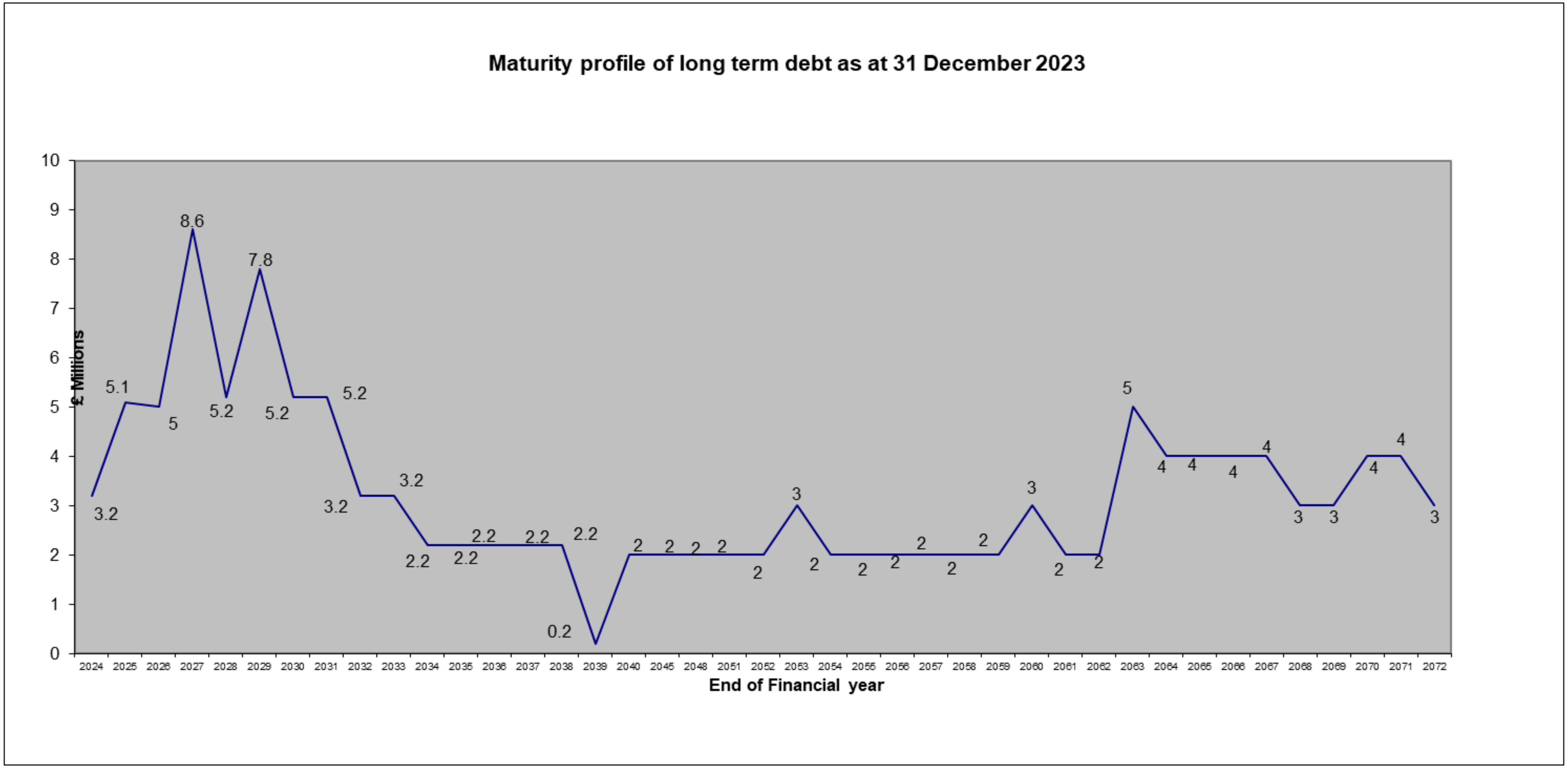
6.2 The prudential code supports the system of capital investment and Local Government in a publicly accountable manner. The report sets revised prudential indicators and recommends a general continuation of Council policy. An Operational Boundary for external debt of £184m, £183m and £181m and an Authorised Limit for external debt of £191m, £190m and £189m for the financial years 2024/25, 2025/26 and 2026/27 are recommended.

APPENDIX 6

Scheme Name	2023/24 Forecast Spend £	2024/25 Forecast Spend £	2025/26 Forecast Spend £	2026/27 Forecast Spend £
Provision of Extra Care Units - North Halifax		485,824		
Ferney Lee		395,260		
DFG - Disabled Facilities Grant	4,000,000	4,169,940	3,183,013	
Social Care Case Management Systems Transformation	2,217,500	1,754,000	1,302,500	
Community Alarms and Mobile Response equipment	200,000	1,000,000		
Children's Centre Refurbishment	100,000	240,000		
Increasing Local Residential Placement for Children	50,000	876,909		
Basic Need Main Scheme Funding Allocation	695,056	93,175	20,616,941	
Basic Need High Needs/Send Funding Allocation	2,592,711	1,375,000	640,446	
Capital Maintenance Funding Allocation	2,111,033	615,924	3,723,901	
Play Area Improvements - Phase 2	243,245	200,000		
ICT Infrastructure		1,138,484		
Halifax Future High Street Funding	9,531,029			
Elland Future High Street Funding	5,594,831			
Brighouse Town Investment Plan	500,000	16,275,801	1,171,418	
Todmorden Town Investment Plan	2,000,000	7,006,650	7,899,877	
Halifax Leisure Centre (New)	1,000,000	5,000,000	25,026,598	
Mixenden Hub	2,737,554			
Clifton Enterprise Zone		4,483,000		
Todmorden Town Centre	30,000	132,917		
Halifax Town Centre Strategy	84,363			
Ambitions For Our Towns	20,000	224,056		
Brighouse Towns Fund		98,220		
Southeast Calderdale		74,130	11,812,502	11,398,839
Asset Review Programme		535,720		
Asset Management	325,963			
Workforce Office Accommodation Strategy	1,597,756			
Capital Investment in the Corporate Estate	1,100,000	1,332,716		
Centre @ Threeways Demolition	500,000	612,000		
LTP integrated transport programme	325,000	950,000		
Flood Risk Reduction Scheme (Phase 1)	65,000	205,049		
WYCA & TCF Programmes	16,414,112			
Parking Strategy (Phase 1 & 2)	124,835			
Street Lighting LED Project	229,980	2,100,000		
Parking Strategy (phase 2)	53,949			
Modernisation of Ainley Depot	1,586,955			
City Region Sustainable Transport Settlement (CRSTS)*	6,999,488	9,386,823	8,525,645	6,930,000
Active Travel	818,711	3,094,902		
CMBC CRSTS matched funding	610,000			
Beech Hill Phase 2	41,357			
Green Homes Grant Phase 2	19,311			
Green Homes Grant Phase 3	1,804,881			
Public Sector Decarbonisation Scheme - Phase 3	279,237			
Public Sector Decarbonisation Scheme - Phase 1	51,752			
Home Upgrade Grant Scheme	1,152,000	2,448,000		
Dudleys Estate		71,870		
Siddal Environmental Improvement Scheme		83,098		
Affordable Warmth - Improving Insulation	39,953			
Affordable Housing		300,000		
Upgrade of ITrent HR and Payroll system 2023/24	260,480			
Unallocated		228,863		
EV Charging Infrastructure	33,111			
Council Transformation and Improvement Plan		2,000,000		
Total Capital Programme Planned Expenditure	**68,141,153**	**68,988,331**	**83,902,841**	**18,328,839**

**Includes CRSTS funding as outlined in Highways Programme report on this agenda*

APPENDIX 7


Maturity profile of long term debt as at 31 December 2023
£ Millions
End of Financial year