Capital and Investment Strategy 2024/25 to 2026/27

This strategy document is presented in three sections and requires approval by the Authority.

- **Section A: Capital Strategy**

  This gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

- **Section B: Minimum Revenue Provision Statement**

  This is a statement that the Authority is required to prepare and approve each year setting out its policy on making MRP in respect of the upcoming financial year. The statement sets out how the Authority proposes to discharge its duty to make prudent MRP charges to the revenue budget.

- **Section C: Non-treasury Investment Strategy**

  This focuses on investments that are not made for treasury management purposes and supports transparent reporting and democratic accountability for any such non-treasury investments.

The requirement for this strategy document stems from the:

- Local Government Act 2003, Section 15(1)
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]

As a result, the Authority is required to have regard to:

- MHCLG Statutory Guidance on Local Government Investments
- MHCLG Statutory Guidance on Minimum Revenue Provision (MRP)
- CIPFA's Prudential Code (last updated 2021)
- CIPFA's Treasury Management Code (last updated 2021)

Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, and a Treasury Management Strategy (TMS) in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document. The Authority includes its non-treasury management Investment Strategy alongside the Capital Strategy in this document. The TMS is a separate document reported to Authority and includes the investment strategy for treasury management investments.

Section A: Capital Strategy

1. Introduction

1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

2. Governance arrangements for capital investment

2.1 The Authority's overarching objective is set out in the statement *"Together We Make Life Safer."* The Medium Term Financial Plan (MTFP) is the financial plan to support the Authority in achieving its objectives and ensures that it continues to invest wisely in existing assets and the delivery of a programme of new ones in line with overall priorities and need. The MTFP is closely aligned to the development of the Authority's priorities to meet its Safety Plan objectives.

2.2 Governance arrangements for capital expenditure are set out in detail within the Authority's financial regulations. This includes a requirement for a capital programme to be prepared each year for consideration by Members including details of all schemes showing the phasing of costs and method of funding as well as an estimate of the revenue implications for the scheme. Any potential scheme with projected costs in excess of £1m need to be formally appraised and a report submitted to the Authority for approval before any expenditure can be committed.

2.3 Capital investment priorities are kept under review by the Executive Group, chaired by the Chief Fire Officer. The majority of the Authority's capital investment is in its estate and fleet, both of which fall under the remit of the Director of Corporate Services, who is a member of the Executive Group, as is the Chief Financial Officer.

2.4 Risk management is an integral part of determining and delivering a capital programme. Programme and project management, monitoring and reporting is used to manage schemes within the capital programme and ensure appropriate escalation of risks and issues. To further help to mitigate risk, the Authority approved the creation of a Capital and Investment Risk Reserve in February 2023.

2.5 The Authority has set a target to reach net zero carbon emissions by 2050 which will require sustained investment to reduce the organisation's impact on the environment. This is driven by several factors: the Government Climate Change Act; the increase in energy prices; and a need to reduce the future consequences of inaction, since the Service acts as a first responder to events such as flooding and storms, both impacted by changes in climate. The Authority has an approved Carbon Reduction Pathway in place.

3. Capital expenditure, capital financing and asset management

3.1 Capital expenditure is spending by the Authority on assets that will be used for more than one year, such as land, property, or vehicles. In local government this includes relevant spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

3.2 The Authority considers estimates for the timing of capital expenditure and the availability of financial resources when determining the capital programme.

3.3 There are a number of ways that capital expenditure can be funded:

- Funding can be sought from **external sources**, such as capital grants and contributions from other bodies, including developers. The opportunities for the Authority here are limited and it receives no capital funding from central government. The Authority will continue to explore opportunities as they arise, for example grants that may be available to support the carbon reduction pathway.
- **Capital receipts** secured through the sale of assets owned by the Authority can also be used to fund expenditure, although opportunities here are limited and any asset can only be sold once.
- The Authority's capital programme is therefore almost entirely funded through its own **local resources**, comprising prudential borrowing, contributions from the revenue budget, and the use of reserves. **Reserves** can only be spent once, and **prudential borrowing** creates a future pressure on the revenue budget through interest and repayment of principal (Minimum Revenue Provision) costs. Similarly, pressures on the revenue budget limit the extent to which **planned revenue contributions** can be used as a source of funding.

Capital expenditure

3.4 Table 1 provides details of the Authority's capital programme and the estimated expenditure flows. This is one of the required Prudential Indicators.

Table 1: Capital programme forecast expenditure flows (Prudential Indicator 1)

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Forecast Expenditure	28,446	26,269	12,513	7,081	3,839

3.5 The most significant elements of the Authority's capital programme related to the Station Investment Programme, other developments to the estate (including the application of retrospective design principles and actions related to the carbon reduction pathway) and the investment in vehicles. Further details can be found in Appendix C.

3.6 The Authority continues to proactively monitor the developing research and awareness of impacts for fire and rescue personnel of the products of combustion from fires (fire contaminants). An update report was provided to the Authority in October 2023 and changes to assets, facilities and practices may further impact the capital programme in future.

Capital financing

3.7 All capital expenditure must be financed, either from external sources, the Authority's own resources, or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The Authority's borrowing strategy is summarised in Section 5 and forms part of its Treasury Management Strategy.

3.8 The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

Table 2 - Resources to Fund Capital Expenditure

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Future years £'000
Prudential borrowing	14,759	8,029	5,737	3,262	155
Capital receipts	59	0	0	0	0
Contributions from other bodies	0	0	0	0	0
Use of capital payments reserve	13,859	19,411	6,776	3,819	3,684
Revenue Contribution to Capital	0	0	0	0	0
Total resources	**28,677**	**27,440**	**12,513**	**7,081**	**3,839**

3.9 In addition to the draws from the capital payments reserve for capital expenditure shown in Table 2, further draws are forecast to fund major revenue investments in 2023/24 (£0.231m) and 2024/25 (£1.171m). This is appropriate because the original source of funding for the capital payments reserve was revenue resources.

Asset management and disposal

3.10 Asset management for the Authority's estate is conducted by the Property and Facilities team within the Corporate Services directorate.

3.11 The Authority is required to discharge its responsibilities to safeguard public funds by correctly managing the lifecycle of assets under its stewardship. The Asset Management Policy sets out a whole life, whole asset approach to achieving this responsibility.

3.12 The policy also ensures that the Authority meets its legal requirements under the Fire and Rescue Services Act 2004 and Civil Contingencies Act 2004 to secure the provision of services and equipment necessary to meet all normal service delivery requirements.

3.13 The policy is reviewed on an annual basis to ensure it remains accurate and up to date. It helps to ensure a direct correlation between the Safety Plan priorities and the Corporate Services Strategic Plan in managing the Authority's assets. This includes maintaining written asset management plans and the appropriate use of asset management systems.

3.14 The policy sets out key principles to aid asset management decision making in terms of:

- Effectiveness
- Legislative compliance
- Value for money
- Stewardship

3.15 Capital receipts are generated when a capital asset is identified as surplus to requirements and is then sold. The proceeds from these asset sales may be used to fund new capital assets or to repay debt. The repayment of capital grants, loans and investments will also count as capital receipts, with the same restrictions on future use of the proceeds. The Authority has relatively limited opportunities to generate capital receipts.

3.16 The Authority's financial regulations set out that the Authority is required to consider and approve the sale and purchase of land or buildings with a value greater than £250,000 or the disposal of land of buildings by way of lease or license for a period of greater than 10 years or at a value greater than £100,000 per annum.

4. Prudence and affordability

4.1 The Authority is required to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set and monitored to help with this requirement, which are set out in the Prudential Code. Actual figures for the prudential indicators at the end of each quarter will be included in regular reporting to Members. The prudential indicators cover:

- Capital expenditure (Tables 1 and 3)
- External debt (Tables 3 and 5)
- Affordability (Tables 6 and 7).

4.2 The Prudential Code sets out that certain acts and practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment. The Authority will not therefore:

- Borrow to invest primarily for financial return
- Make investment or spending decisions that increase the CFR unless directly and primarily related to the functions of the authority (any financial returns should either be related to the financial viability of the project or incidental to the primary purpose).

Prudential borrowing

4.3 Capital financing costs associated with prudential borrowing must be financed by the Authority from its own resources. It is therefore important that the use of prudential borrowing is very closely controlled and monitored. The Authority will only use prudential borrowing where there is a clear financial case to support doing so, although it will not borrow to invest primarily for financial return and therefore retains full access to the Public Works Loan Board (PWLB).

Ensuring borrowing is only for capital purposes

4.4 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.

4.5 The Prudential Code states that a local authority must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence and is shown in Table 3.

Table 3: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/24 Revised £M	31/03/25 Estimate £M	31/03/26 Estimate £M	31/03/27 Estimate £M
CFR	**29.3**	**37.0**	**41.8**	**44.0**
Debt				
Borrowing	5.6	22.6	35.7	36.6
Leases	0.0	0.4	0.4	0.4
Total Debt	**5.6**	**23.0**	**36.1**	**37.0**

4.6 Total debt is expected to remain below the CFR during the forecast period. The estimates for CFR and debt reflect the introduction of IFRS 16 (the new accounting standard for leases) from April 2024.

4.7 External debt is expected to remain below the CFR because of the Authority's borrowing strategy, whereby it has used internal borrowing (the temporary use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources on the advice of its treasury management advisors, Arlingclose.

4.8 The Authority is expecting to undertake new external borrowing to support its capital programme plans and the forecasts in Table 3 are based on the current best assumptions for the timing of this borrowing, in line with the capital programme forecasts, consistent with Table 1 in the Treasury Management Strategy. The timing and source of borrowing will be determined in line with the Treasury Management Strategy and upon taking advice from Arlingclose.

Affordable borrowing limit

4.9 The Authority is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the Authority's estimate of a prudent but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Table 4: Affordable Borrowing Limits (Prudential Indicators 3 and 4)

	2023/24 Revised £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M
Authorised Limit:				
Borrowing	36.1	43.3	48.2	50.4
Leases and other	5.0	5.4	5.4	5.4
Authorised Limit	**41.1**	**48.7**	**53.6**	**55.8**
Operational boundary:				
Borrowing	32.7	39.9	44.8	47.0
Leases and other	5.0	5.4	5.4	5.4
Operational Boundary	**37.7**	**45.4**	**50.2**	**52.4**

Affordability of financing costs

4.10 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs such as interest payable under finance leases and amounts relating to the early settlement of borrowing. In aggregate these costs are known as financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.

4.11 Table 5 shows the proportion of the Authority's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the Authority's capital programme.

Table 6: Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio	0.8%	3.0%	3.5%	3.5%

4.12 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised. The increase reflects the planned prudential borrowing associated with enhancements to the Authority's estate. The actual ratio in future years will depend upon the timing of capital expenditure and the timing, source and interest rates secured on any new borrowing.

Reliance on income from commercial and service investments

4.13 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income.

4.14 The Authority does not make new investments for commercial or service purposes, however it does hold two assets as investment properties on its Balance Sheet. These assets relate to discrete buildings on existing fire station sites where the buildings are no longer required by the Authority for service delivery. They have therefore been rented out to public sector partners and count as assets held exclusively for rental income and/or capital appreciation, therefore meeting the technical definition of an investment property.

Table 7: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio	0.1%	0.1%	0.1%	0.1%

5. Treasury Management

5.1 The Treasury Management Strategy (TMS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the Authority’s cash flows, borrowing and investments, and the associated risks.

5.2 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

5.3 The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

5.4 The Authority has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority’s Treasury Management Strategy (TMS).

5.5 The Authority's TMS, included as Appendix E to this report and is approved by the Authority each year. Actual performance is reviewed by the Authority at mid-year and the end of each financial year.

5.6 Treasury Management prudential indicators are included within the Treasury Management Strategy.

Treasury management borrowing strategy

5.7 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the Authority's long-term plans change, is a secondary objective.

Treasury management investment strategy

5.8 The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.9 The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

5.10 The Authority's actual and forecast treasury management investment balances are shown in Table 9 with further detail in the TMS.

Table 8 – treasury management investments

	31/3/23 actual £m	31/3/24 forecast £m	31/3/25 forecast £m	31/3/26 forecast £m
Short term investments	21.49	6.75	4.75	2.75
Long term investments	7.00	3.25	3.25	3.25
Total	**28.49**	**10.00**	**8.00**	**6.00**

Pooled fund investments

5.11 The Authority holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix D). Where the Authority holds surplus cash, it is invested until it is required, in accordance with the Authority's TMS. This includes allocating a proportion to investments in pooled funds. The Authority currently holds pooled fund investments totalling £3.25m, having reduced its holding over the past 12 months.

5.12 These investments help the Authority to mitigate interest rate and inflation risks as part of its TMS. They also present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns.

5.13 Following the increases in UK Bank there is no longer a significant difference between the interest rates being achieved by pooled fund investments and cash, as short-term interest rates are now comparable with returns being targeted from pooled funds. The Authority will however continue to make use of long-term balances where appropriate, with the option of making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class, although given the reductions in investment balances resulting from the Authority's planned expenditure on the capital programme it is likely that the Authority will not hold significant amounts in longer term investments.

5.14 The Authority is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. Since 2023 it has held a specific Capital and Investment Risk Reserve to mitigate inflationary and interest rate risks to the capital programme and risks associated with the Authority's investments. Further details are included in the February 2023 update to the Reserves Strategy. The risks include not only the risk of crystalising a loss, but also risks related to the accounting treatment of fair value gains and losses under IFRS 9. There is currently a statutory override in place that means that changes in fair value do not have to be charged to the revenue budget, however this is due to end on 31 March 2025.

5.15 The selection of investments to target higher yields is carefully managed with the assistance of Arlingclose, the Authority's treasury management advisor. in Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the Fire & Rescue Authority's income returns aims without putting its initial investment at undue risk over the longer term.

5.16 The Authority utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.

6. Knowledge and skills

6.1 Through the Hampshire Shared Services Partnership, the Authority is advised by professionally qualified and experienced staff in senior positions supporting capital expenditure, borrowing and investment decisions in accordance with approves strategies.

6.2 The Chief Financial Officer (S151 officer) and Deputy Chief Financial Officer (Deputy S151 officer) for the Authority are experienced members of the Chartered Institute of Public Finance and Accountancy (CIPFA), as is the Head of Investments and Borrowing, who oversees daily treasury management activity. Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

6.3 Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

6.4 CIPFA's Code of Practice requires that the Authority ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All Members were invited to a workshop presented by Arlingclose in November 2023, which gave an update of treasury matters. A further Arlingclose workshop is planned for 2024.

6.5 The Authority 'opted-up' to professional client status with its providers of financial services when the Markets in Financial Instruments Directive was put in place. Given the size and range of treasury management activities, the Chief Financial Officer believes this to be the most appropriate status at this current time. Investment balances are expected to fall over time as the Authority progresses with the approved capital programme and balances may fall below the £10m minimum threshold expected of professional clients under MiFID II. However, in the event that this does happen, the Chief Financial Officer does not expect a retail client status to negatively affect the Authority's treasury management activities due to Arlingclose being able to accept it as a retail client, as well as the service provided by Hampshire County Council. Through the treasury management service supplied by Hampshire County

Council, the Authority will have access to information on appropriate options for investment, which are shared amongst all partners. The Chief Financial Officer will then agree suitable investment counterparties based on this information as applicable. The Chief Financial Officer will provide an update on the professional client status in the 2025/26 TMS.

Investment Advisers

6.6 As part of the Hampshire Shared Services Partnership, Hampshire County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Deputy Chief Executive and Director of Corporate Operations for Hampshire County Council, their staff, and Arlingclose. The Chief Financial Officer for the Authority also attends these meetings.

7. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

7.1 This Capital and Investment Strategy has been developed alongside the TMS (Appendix E) and the Reserves Strategy (Appendix D). Together, they form an integrated approach adopted by the Authority to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.

7.2 The forward planning of capital investment and its funding, including being in a position to maximise the use of external grants, contributions and capital receipts if available, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Chief Financial Officer that the proposed Capital Programme is prudent, affordable and sustainable.

7.3 The Estates Capital Programme significantly increases prudential borrowing and brings with it associated annual revenue costs over the longer term. The Authority and Service are aware of the impact of this new borrowing and it has been taken into account in setting the Medium Term Financial Plan, the revenue budget for 2024/25 and the capital programme.

Section B: Minimum Revenue Provision Statement

8. Minimum Revenue Provision (MRP) Statement

8.1 Where the Authority finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. The Local Government Act 2003 requires the Authority to have regard to proper practice as issued by Government. The Department for Levelling Up, Housing and Communities has been consulting on proposed changes to the relevant regulations to ensure that all authorities make adequate revenue provision. The current consultation closes on 16 February 2024 and until that is concluded, the relevant government guidance is as issued in 2018.

8.2 The broad aim of the government guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Government Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant.

8.3 The guidance requires the Authority to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP, the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.

8.4 The four options provided are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

8.5 Options 1 and 2 may be used only for historic supported capital expenditure funded from borrowing (i.e. financing costs deemed to be supported through the RSG from central government). Methods of making prudent provision for unsupported capital expenditure are restricted to Options 3 and 4 (which may also be used for supported capital expenditure if the Authority chooses).

8.6 **Supported borrowing:** The Authority will continue to apply Option 2 in respect of historic supported capital expenditure funded from borrowing with an MRP charge equal to 4% of the CFR balance in respect of that expenditure.

8.7 **Unsupported borrowing:** The Authority will continue to apply Option 3 in respect of unsupported capital expenditure funded by borrowing by charging

MRP over the expected useful life of the relevant assets in equal instalments. The Authority's current capital programme plans will deliver enhancements to its estate funded through prudential borrowing, for example through the creation of new fire stations where MRP will be charged over 50 years.

8.8 **Leases:** For assets acquired by leases, MRP will be determined to be equal to the element of the rent or charge that goes to write down the balance sheet liability. The mandatory adoption of the new accounting standard for leases (IFRS 16) is April 2024 and will mean that former operating leases will be brought onto the balance sheet from 1 April 2024. Where this is the case, the annual MRP charge will be set so that the total charge to the revenue budget remains unaffected by the new accounting standard.

8.9 **Commencement of MRP:** Capital expenditure will not be subject to MRP charges until the year after the expenditure takes place.

MRP forecast

8.10 Based on the Authority's latest estimate of its CFR on 31 March 2024, the budget for MRP has been set as follows:

Table 9: MRP Budget

	31/03/2024 Estimated CFR £'000	**2024/25 Estimated MRP £'000**
Supported Capital Expenditure	9,035	361
Unsupported Capital Expenditure After 31/03/2008	20,259	409
Leases	0*	7
Total	**29,294**	**777**

* leases are due to be brought onto the Balance Sheet on 1 April 2024 in implementing IFRS 16

Section C: Non-treasury investment strategy

9. Introduction

9.1. The government issued statutory guidance on local government investments in 2018. The Authority is required to have regard to this guidance, which complements both the Prudential Code and Treasury Management Code. The update to the guidance in 2018 reflected changes in patterns of local authority behaviour that were considered to be exposing local authorities to too much financial risk, with insufficient transparency and the potential for insufficient expertise in understanding complex transactions being entered into.

9.2. The Authority may invest its money for three broad purposes:

a. Because it has surplus cash from its day to day activities (treasury management investments)

b. To support local public services by lending to or buying shares in another organisation (service investments)

c. To earn investment income (commercial investments where this is the main purpose)

9.3. The statutory guidance defines investments as *"all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios."*

9.4. The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

9.5. The government guidance states that assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the Local Government Act 2003 should not be classified as non-financial investments for this purpose.

Treasury management investments

9.6. There is typically a timing difference for local authorities between receiving cash (e.g. taxation and grants) and incurring expenditure. Local authorities also hold reserves balances to fund future expenditure. Where cash is held it is therefore invested in accordance with the requirements of the CIPFA Treasury Management Code. The majority of the Authority’s investments are treasury management investments and covered in the Capital Strategy (Section A of this document) and the separate Treasury Management Strategy.

9.7. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Commercial and service investments

9.8. The Authority primarily uses its property estate for the delivery of frontline services, with asset management conducted by the Property and Facilities team within the Corporate Services directorate. Where practical and without having an operational impact, the Authority will look to use property assets to reduce the annual revenue cost of the estate and to maximise the potential for income generation, for example through the use of vacant space within buildings and forming partnerships with other emergency services by sharing buildings.

9.9. **Investments for commercial purposes** are defined in the Prudential Code as being undertaken primarily for financial return but without being linked to treasury management activity or being part of service delivery. They are therefore additional investments taken voluntarily with the primary objective of generating a net financial return or profit. They will usually constitute capital expenditure. The income generated helps to deliver service objectives.

9.10. **Investments for service purposes** are those undertaken primarily and directly for the delivery of public services or in support of joint working with others to deliver such services. They will normally constitute capital expenditure and it may be appropriate to borrow to finance these investments. They may or may not deliver financial returns, but this will not be the primary purpose of the investment.

9.11. The Authority does not consider the use of spare capacity within buildings within its estate to constitute **commercial or service investments.** The income generated from allowing partners to use space within the Authority’s buildings provides a contribution to offset costs being incurred by the Authority rather than to generate a profit and is an effective way of utilising assets. This is consistent with definitions within the CIPFA Code for investment properties.

9.12. The Authority does however have two separate buildings at existing fire station sites which have been classified as investment properties on the Balance Sheet, with a valuation of £0.754m at 31 March 2023. The assets are held as investment properties because they are discrete buildings no longer required for operational purposes by the Authority and are instead therefore being rented out to partners. For the purposes of this investment strategy these assets have therefore been included as commercial investments, however the value and nature of these assets, the reason for holding them, and the associated level of risk is very different from a traditional commercial property investment portfolio.

Investment indicators

9.13. The government guidance states that:

> *"…authorities should present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. The indicators should cover both the local authority's current position and the expected position assuming all planned investments for the following year are completed. The indicators do not need to take account of Treasury Management investments unless these are expected to be held for more than 12 months.*
>
> *The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions."*

9.14. The government guidance suggests a number of investment indicators for local authorities to use. The majority of the Authority's investments are treasury management investments and covered by the Treasury Management Strategy. In addition, as outlined above, the two investments classified as investment properties are low value and only exist because the Authority is utilising discrete buildings on existing fire station sites to generate income. A simplified table of indicators is therefore presented in Table 10.

Table 10 – Total Investment Exposure (£m)	**31.03.2023 Actual**	**31.03.2024 Forecast**	**31.03.2025 Forecast**
	£m	**£m**	**£m**
Treasury management (long term)	7.00	3.25	3.25
Service investments (loans)	0.00	0.00	0.00
Service investments (equity)	0.00	0.00	0.00
Commercial investments	0.75	0.75	0.75
Total investments	7.75	4.00	4.00