

Adroddiad Strategaeth Gyfalaf Comisiynydd Heddlu a Throsedd Gogledd Cymru 2023/24

1. Cyflwyniad

- 1.1. Mae'r adroddiad strategaeth gyfalaf hwn yn rhoi trosolwg lefel uchel ar sut mae gwariant cyfalaf, ariannu cyfalaf a rheoli'r trysorlys yn cyfrannu at ddarparu gwasanaethau cyhoeddus lleol ynghyd â throsolwg o sut mae risg cysylltiedig yn cael ei reoli a'r goblygiadau ar gyfer cynaliadwyedd ariannol yn y dyfodol. Mae wedi cael ei ysgrifennu mewn arddull hygrych er mwyn gwella dealltwriaeth aelodau o'r meysydd hyn sydd weithiau'n dechnegol.
- 1.2. Bydd gan benderfyniadau a wneir eleni ar gyfalaf a rheoli'r trysorlys ganlyniadau ariannol i'r Comisiynydd Heddlu a Throsedd am flynyddoedd i'r dyfodol. Maent felly'n destun fframwaith rheoleiddiol cenedlaethol a fframwaith polisi lleol, a grynhoir yn yr adroddiad hwn.

2. Gwariant Cyfalaf a Chyllido

- 2.1. Gwariant cyfalaf yw lle mae'r Comisiynydd Heddlu a Throsedd yn gwario arian ar asedau, megis eiddo neu gerbydau, a gaiff eu defnyddio am fwy na blwyddyn. Mewn llywodraeth leol mae hyn yn cynnwys gwario ar asedau sy'n eiddo cyrff eraill, a benthyciadau a grantiau i gyrff eraill sy'n eu galluogi i brynu asedau.
- 2.2. Cyflwynwyd y Rhaglen Gyfalaf ddrafft i'r Bwrdd Gweithredol Strategol (BGS) ar 15 Chwefror 2023 fel rhan o'r Cynllun Ariannol Tymor Canolig. Cytunwyd ar y testun ar gyfer cadarnhad terfynol y Strategaeth Gyfalaf hon. Mae ymarfer pellach wedi'i ymgymryd er mwyn ailasesu cyflwyno prosiectau cyfalaf unigol yn raddol sydd wedi arwain at newid yn amseru prosiectau ond nid newid sylweddol yn y costau cyffredinol. Mae'r Comisiynydd Heddlu a Throsedd yn cynllunio gwariant cyfalaf fel y crynhoir isod, gyda'r manylion fel y dangosir yn **Atodiad A**:

Tabl 1: Dangosydd Darbodus: Amcangyfrifon o Wariant Cyfalaf mewn £ miliynau

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
	£m	£m	£m	£m	£m	£m	£m
Cyfanswm Gwariant Cyfalaf	4.24	7.04	12.21	15.05	9.58	5.78	3.60

- 2.3. **Llywodraethu (gwariant cyfalaf):** Mae asedau a seilwaith y CHTH angen buddsoddiad parhaus er mwyn sicrhau amgylchfyd gweithio effeithlon a modern. Mae'r Rhaglen Gyfalaf yn adlewyrchu gweithredu'r Strategaethau Stadau, TG a Fflyd. Mae gweithredu Ymgyrch Uplift ac edrych ar y gofynion fel rhan o'r cylch cynllunio wedi arwain at ddiwygio'r Rhaglen arfaethedig. Mae sawl problem fel oedi cadwyn gyflenwi, oedi mewn caniatáu cynllunio a chostau cynyddol oherwydd chwyddiant uwch sydd wedi oedi ac wedi gwneud gweithredu'r rhaglen gyfalaf yn heriol. Elfen fawr o'r Rhaglen bresennol oedd rhaglen ddisodli'r Rhwydwaith Gwasanaethau Brys – mae hyn bellach wedi'i oedi tu hwnt i ddyddiad y Rhaglen Gyfalaf. Mae proffilio bob cynllun cyfalaf ar sail amcangyfrifon gorau ar amser penodol. Maent yn cael eu monitro'n gyson ac yn destun adolygiad. Fodd bynnag, er mwyn sefydlu cyllid sylfaenol, mae angen cynnwys ffrydiau gwaith hanfodol yn y Rhaglen Gyfalaf cyn cwblhau achos busnes llawn. Yn y pen draw, gall rhai o'r rhain ofyn am elfen o ail broffilio os ydynt yn pontio dwy flwyddyn ariannol e.e. disodli Camerâu Corff.
- 2.4. Rhaid i holl wariant cyfalaf gael ei gyllido, un ai o ffynonellau allanol (grantiau llywodraeth a chyfraniadau eraill), adnoddau'r Comisiynydd Heddlu a Throsedd ei hun (refeniw, cronfeydd wrth gefn a derbynebau cyfalaf) neu dyled (benthycia, prydlesu a Menter Cyllid Breifat). Mae cyllido arfaethedig y gwariant uchod fel a ganlyn:

Tabl 2: Cyllido cyfalaf mewn £ miliynau

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
	£m	£m	£m	£m	£m	£m	£m
Ffynonellau allanol	0.12	0.00	0.00	0.00	0.00	0.00	0.00
Derbynebau cyfalaf	0.06	0.43	0.25	2.52	0.75	0.10	0.00
Adnoddau refeniw	3.29	3.78	5.62	4.35	3.02	2.73	2.28
Dyled	0.77	2.83	6.34	8.18	5.81	2.95	1.32
CYFANSWM	4.24	7.04	12.21	15.05	9.58	5.78	3.60

- 2.5. Mae dyled ond yn ffynhonnell gyllid dros dro, gan fod angen ad-dalu benthyciadau a phrydlesau. Disodlir hyn felly dros dro gan gyllido arall, fel arfer o reffeniw a adwaenir fel darpariaeth reffeniw sylfaenol (DRS). Fel arall, gellir defnyddio enillion o werthu asedau cyfalaf (a adwaenir fel derbynebau cyfalaf) i amnewid cyllid dyled. Mae DRS Arfaethedig fel a ganlyn:

Tabl 3: Amnewid cyllid dyled blynyddoedd blaenorol mewn £ miliynau

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
	£m	£m	£m	£m	£m	£m	£m
DRS wedi'i gyllidebu (Adnoddau ei hun)	2.74	2.39	2.52	2.82	3.22	3.62	4.21

- Gwelir datganiad darpariaeth reffeniw sylfaenol llawn y Comisiynydd Heddlu a Throsedd yn Atodiad B i'r adroddiad hwn.

- 2.6. Mesurir swm cyllid dyled gweddilliol cronol y Comisiynydd Heddlu a Throsedd gan y gofyn cyllido cyfalaf (GCC). Mae hyn yn cynyddu gyda gwariant cyfalaf a gyllidir gan ddyled ac yn gostwng a defnyddir DRS a derbynebau cyfalaf i ddisodli dyled. Disgwylir i'r GCC gynyddu £3.9m yn ystod 2023/24. Yn seiliedig ar y ffigyrau uchod am wariant a chyllido, mae GCC tybiedig y Comisiynydd Heddlu a Throsedd fel a ganlyn:

Tabl 4: Dangosydd Darbodus: Amcangyfrifon o Ofyn Cyllido Cyfalaf mewn £ miliynau

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
	£m	£m	£m	£m	£m	£m	£m
Cyfanswm GCC	28.00	28.44	32.35	37.88	40.46	39.79	37.11

- 2.7. **Rheoli asedau:** Er mwyn sicrhau fod yr asedau cyfalaf yn parhau i fod o ddefnydd tymor hir, mae gan y Comisiynydd Heddlu a Throsedd strategaethau rheoli Stadau, Fflyd a TG perthnasol mewn lle.

- 2.8. **Gwaredu asedau:** Pan nad oes angen ased gyfalaf bellach, gellir ei werthu fel y gall yr enillion, a adwaenir fel derbynebau cyfalaf, eu gwario ar asedau newydd i ad-dalu dyled. Mae ad-dalu grantiau cyfalaf, benthyciadau a buddsoddiadau hefyd yn creu derbynebau cyfalaf. Mae'r Comisiynydd Heddlu a Throsedd yn cynllunio derbyn £2.61m o dderbynebau cyfalaf ym mlynnyddoedd ariannol 2022/23 ymlaen fel a ganlyn:

Tabl 5: Derbynebau cyfalaf derbyniadwy mewn £ miliynau

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
	£m	£m	£m	£m	£m	£m	£m
Balans agoriadol	2.08	2.35	3.65	3.40	0.88	0.50	0.90
Derbynebau	0.33	1.73	0.00	0.00	0.38	0.50	0.00
Defnydd wedi'i gyllidebu	(0.06)	(0.43)	(0.25)	(2.52)	(0.10)	(0.10)	(0.00)
Balans	2.35	3.65	3.40	0.88	0.50	0.90	0.90

3. Rheoli'r Trysorlys

- 3.1. Mae rheoli'r trysorlys ynghylch cadw digon ond nid gormod o arian parod i fodloni anghenion gwario'r Comisiynydd Heddlu a Throsedd, wrth reoli'r risgiau ynghlwm. Buddsoddir arian parod dros ben hyd nes y bydd ei angen. Bodlonir prinder arian parod gan fenthycia, er mwyn osgoi balansau credyd neu orddrafftiau gormodol yn y cyfrif banc cyfredol. Mae'r Comisiynydd Heddlu a Throsedd fel arfer yn gyfoethog o ran arian parod yn y tymor byr wrth i incwm reffeniw gael ei dderbyn cyn iddo gael ei wario, ond yn dlawd o ran arian parod yn y tymor hir gan yr ysgwyddir gwariant cyfalaf cyn cael ei gyllido. Cyferbynnir arian parod reffeniw dros ben yn erbyn diffygion arian parod cyfalaf i leihau benthycia cyffredinol.

- 3.2. Mae Strategaeth Rheoli'r Trysorlys (Atodiad C) yn gosod y ffiniau y llywodraethir a monitrir gweithgarwch Rheoli'r Trysorlys. Mae'r rhain yn seiliedig ar flaenoriaethu diogelwch yn gyntaf, hylifedd yn ail ac arenillion yn olaf. Mae hyn yn lleihau incwm buddsoddiad posibl ond yn lleihau'r risg o golli arian drwy fuddsoddiadau sydd â mwy o risg iddynt. Mae'r isod yn crynhoi prif bwyntiau Strategaeth Rheoli'r Trysorlys.

- 3.3. **Strategaeth fenthycyca:** Prif amcanion y Comisiynydd Heddlu a Throsedd wrth fenthycyca yw cyflawni cost cyllid isel ond sicr wrth gadw hyblygrwydd os yw cynlluniau'n newid yn y dyfodol. Mae'r amcanion hyn yn aml yn gwrthdaro, ac felly mae'r Comisiynydd Heddlu a Throsedd yn ceisio taro cydbwysedd rhwng benthycyadau tymor byr rhatach a benthycyadau cyfradd sefydlog tymor hir lle mae'r gost yn y dyfodol yn hysbys ond yn uwch.
- 3.4. Cydbwysir y Strategaeth Fenthycyca hefyd gan y defnydd o arian parod refeniw sydd ar gael yn hytrach na'i fenthycyca, a adwaenir fel benthycyca mewanol. Mae benthycyca mewanol wedi'i ddefnyddio'n helaeth dros y blynyddoedd diwethaf gan greu arbedion mewn taliadau llog y flwyddyn ac yn lleihau risg drwy beidio buddsoddi arian parod. Fodd bynnag, mae defnyddio cronfeydd wrth gefn i ariannu Cyfalaf wedi lleihau'r symiau sydd ar gael i fenthycyca'n fewnol. Ffactor arall i'w ystyried ydy nad ydy incwm y Comisiynydd Heddlu a Throsedd yn gyson yn ystod y flwyddyn. Mae hyn oherwydd Grant Pensiwn oddeutu £20m yn cael ei dalu mewn cyfandaliad bob mis Gorffennaf. Ar ben hyn, telir Grant Swm Atodol Cymru sef £22.5m gan y Swyddfa Gartref ar gyfer 2023/24 mewn un cyfandaliad o flaen llaw ym mis Ebrill 2023 (yn hytrach na rhandaliadau misol).
- 3.5. Nid ydy'r Comisiynydd Heddlu a Throsedd yn benthycyca er mwyn buddsoddi ar gyfer y prif ddiben sef elw ariannol ac mae felly'n cadw mynediad llawn i Fwrdd Benthycyadau Gwaith Cyhoeddus.
- 3.6. Dengys lefelau arfaethedig cyfanswm dyled dros ben y Comisiynydd Heddlu a Throsedd (sy'n cynnwys benthycyca, dyledion PFI, prydlesi a dyled wedi'i throsglwyddo) isod, o'u cymharu â'r gofyn cyllido cyfalaf (gweler uchod).

Tabl 6: Dangosydd Darbodus: Dyled Gros a'r Gofyn Cyllido Cyfalaf mewn £ miliynau

	Presennol 2021/22 £m	Rhagolwg 2022/23 £m	Cyllideb 2023/24 £m	Cyllideb 2024/25 £m	Cyllideb 2025/26 £m	Cyllideb 2026/27 £m	Cyllideb 2027/28 £m
Dyled (yn cynnwys PFI a phrydlesi)	17.10	15.65	14.12	12.50	10.79	8.97	7.04
Gofyn Cyllido Cyfalaf	28.00	28.44	32.35	37.88	40.46	39.79	37.11

- 3.6. Y canllawiau statudol yw y dylai dyled barhau islaw y gofyn cyllido cyfalaf, oni bai yn y tymor byr. Fel y gellir gweld o dabl 6, mae'r Comisiynydd Heddlu a Throsedd yn disgwyl cydymffurfio â hyn yn y tymor canolig.
- 3.7. **Meincnod rhwymedigaeth:** Cymharu benthycyca presennol y Comisiynydd Heddlu a Throsedd yn erbyn strategaeth amgen. Mae meincnod rhwymedigaeth wedi'i gyfrifo'n dangos y lefel risg isel o fenthycyca. Mae hyn yn derbyn bod arian balansau arian parod a buddsoddiadau yn cael eu cadw i lefel sylfaenol o £10m ar bob diwedd blwyddyn.

Tabl 7: Benthycyca a'r Meincnod Rhwymedigaeth mewn £ miliynau

	Presennol 31.3.2022 £m	Rhagolwg 31.3.2023 £m	Cyllideb 31.3.2024 £m	Cyllideb 31.3.2025 £m	Cyllideb 31.3.2026 £m	Cyllideb 31.3.2027 £m	Cyllideb 31.3.2028 £m
Benthycyca heb ei gasglu	8.88	8.38	7.88	7.38	6.88	6.38	5.88
Meincnod rhwymedigaeth	(11.23)	(16.64)	(2.30)	9.83	15.95	17.52	17.20

Mae'r benthycyca dros ben yn y tabl uchod yn dangos y lefel bresennol o fenthycyca ymrwymedig, ac mae'r meincnod dyled yn dangos yr uchafswm y byddwn efallai angen ei fenthycyca er mwyn cadw balansau arian parod a buddsoddiadau uwchben £10m. Bydd lefel presennol benthycyca yn dibynnu ar lif arian parod drwy gydol y flwyddyn a bydd yn rhywle rhwng y ddwy lefel a amlinellir uchod.

- 3.8. **Terfyn benthycyca fforddiadwy:** Mae'r Comisiynydd Heddlu a Throsedd yn rhwymedig yn gyfreithiol i osod terfyn benthycyca fforddiadwy (a elwir hefyd y terfyn awdurdodedig ar gyfer dyled allanol) bob blwyddyn a'i gadw o dan adolygiad. Yn unol â chanllaw statudol, gosodir "ffin weithrediadol" is fel lefel rhybudd os yw dyled yn nesáu at y terfyn.

Tabl 8: Dangosyddion Darbodus: Terfyn awdurdodedig a ffin weithrediadol ar gyfer dyled allanol mewn £m

	Terfyn 2022/23 £m	Terfyn 2023/24 £m	Terfyn 2024/25 £m	Terfyn 2025/26 £m	Terfyn 2026/27 £m	Terfyn 2027/28 £m
Terfyn awdurdodedig – benthycyca	24.61	27.10	33.75	37.55	38.20	36.94

Terfyn awdurdodedig – PFI a phrydlesi	7.28	6.24	5.13	3.91	2.60	1.17
Terfyn awdurdodedig – cyfanswm dyled allanol	31.89	33.34	38.88	41.46	40.80	38.11
Ffin weithrediadol – benthycia	22.61	25.10	31.75	35.55	36.20	34.94
Ffin weithrediadol – PFI a phrydlesi	7.28	6.24	5.13	3.91	2.60	1.17
Ffin weithrediadol – cyfanswm dyled allanol	29.89	31.34	36.88	39.46	38.80	36.11

3.9. Strategaeth fuddsoddi'r Trysorlys: Mae buddsoddiadau trysorlys yn codi o dderbyn arian parod cyn y caiff ei dalu allan eto. Ni ystyrir buddsoddiadau a wnaed am resymau gwasanaeth neu am fantais ariannol yn unig yn rhan o reoli'r trysorlys fel arfer.

3.10. Polisi'r Comisiynydd Heddlu a Throsedd ar fuddsoddiadau'r trysorlys ydy blaenoriaethu diogelwch a hylifedd dros arenillion. Hynny yw, canolbwyntio ar leihau risg yn hytrach na chwyddo elw. Buddsoddir arian parod sy'n debygol o gael ei wario yn y tymor agos yn ddiogel, er enghraifft gyda'r llywodraeth, awdurdodau lleol eraill neu fanciau ansawdd uchel dethol, i leihau'r risg o golled. Bydd arian a gedwir am dymhorau hirach yn cael eu buddsoddi'n ehangach, gan gynnwys mewn bondiau, cyfranddaliadau ac eiddo, i fantoli'r risg o golled yn erbyn y risg o dderbyn elw islaw chwyddiant. Gall buddsoddiadau tymor agos a thymor hirach gael eu cadw mewn cronfeydd cronedig, lle mae rheolwr cronfa allanol yn gwneud penderfyniadau ar ba fuddsoddiadau penodol i'w prynu. Gall y Comisiynydd Heddlu a Throsedd ofyn am ei arian yn ôl ar fyr rybudd.

Tabl 9: Buddsoddiadau rheoli'r Trysorlys mewn £ miliynau

	Presennol 31.3.2022 £m	Rhagolwg 31.3.2023 £m	Cyllideb 31.3.2024 £m	Cyllideb 31.3.2025 £m	Cyllideb 31.3.2026 £m	Cyllideb 31.3.2027 £m	Cyllideb 31.3.2028 £m
Buddsoddiadau tymor agos	30.1	35.02	17.75	10.00	10.00	10.00	10.00
Buddsoddiadau tymor hirach	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CYFANSWM	30.1	35.02	17.75	10.00	10.00	10.00	10.00

3.11. Rheoli risg: Mae rheoli risg yn effeithiol yn brif amcanion gweithgarwch rheoli'r trysorlys y Comisiynydd Heddlu a Throsedd. Mae strategaeth rheoli'r trysorlys felly yn amlinellu dangosyddion a chyfyngiadau amrywiol er mwyn cyfyngu'r risg o golledion annisgwyl. Mae'n manylu i ba raddau y gall deilliadau ariannol gael eu defnyddio er mwyn rheoli risgiau'r trysorlys.

3.12. Llywodraethu (rheoli risg): Gwneir penderfyniadau ar fuddsoddiadau a benthycia rheoli'r trysorlys yn ddyddiol. Maent felly'n cael eu hanfon i'r Pennaeth Cyllid a staff, sy'n gorfod gweithredu yn unol â strategaeth rheoli'r trysorlys a gymeradwyir gan y Comisiynydd Heddlu a Throsedd a'r Cydbwyllgor Archwilio (CA). Cyflwynir adroddiadau ar weithgarwch rheoli'r trysorlys i'r Bwrdd Gweithredol Strategol a'r CA. Mae'r CA yn gyfrifol am graffu penderfyniadau rheoli'r trysorlys.

3.13. Buddsoddiadau at Ddibenion Gwasanaeth: Nid ydy'r Comisiynydd Heddlu a Throsedd yn gwneud buddsoddiadau ar hyn o bryd er mwyn cynorthwyo gwasanaethau cyhoeddus lleol (a all gynnwys gwneud benthyciadau neu brynu cyfranddaliadau mewn darparwyr gwasanaeth lleol a/neu fusnesau bach lleol er mwyn hyrwyddo twf economaidd).

3.14. Gweithgarwch Masnachol: Er bod cymorth ariannol llywodraeth ganolog i wasanaethau cyhoeddus lleol yn gostwng, **nid ydy'r** Comisiynydd Heddlu a Throsedd yn buddsoddi mewn eiddo masnachol yn ddim ond neu'n bennaf er elw ariannol.

3.15. Dyledion: Yn ychwanegol at y ddyled a fanylir uchod, mae'r Comisiynydd Heddlu a Throsedd yn ymroddedig i wneud taliadau yn y dyfodol er mwyn gofalu am ei gostau cronfeydd pensiwn. Mae cynllun pensiwn Swyddogion Heddlu yn gynllun di-nawdd sydd dan warant y Llywodraeth. Mae dyledion yn £1,888.0m ar 31.3.22. Y gost i'r Comisiynydd Heddlu a Throsedd yw'r gyfradd cyfraniad cyflogwr, sydd ar hyn o bryd yn 31%. Roedd y diffyg ar y gronfa Pensiwn Staff yn £62.0m ar 31.3.22. Rheolir hyn hefyd drwy'r gyfradd gyfraniad sydd ar hyn o bryd wedi'i gosod ar 19% (a bydd yn gostwng i 18.7% o fis Ebrill 2023).

3.16. Llywodraethu (dyledion): Gwneir penderfyniadau ar dynnu dyledion â disgresiwn gan Dîm y Prif Swyddogion mewn ymgynghoriad â'r Comisiynydd Heddlu a Throsedd a'i Brif Swyddog Cyllid. Monitrir y risg o ddyledion sy'n crisialu ac

angen taliad gan Gyllid Corfforaethol a'i adrodd i'r Bwrdd Rheoli Strategol (BRHS) a'r BGS yn ôl yr angen. Ceir manylion am ddyledion wrth gefn ar 31 Mawrth yn y Datganiad Cyfrifon blynyddol.

4. Goblygiadau Cyllideb Refeniw

- 4.1. Er na chodir gwariant cyfalaf yn uniongyrchol i'r gyllideb refeniw, mae llog sy'n daladwy ar fenthyciadau a DRS wedi'u codi ar refeniw. Adwaenir y gost flynyddol net fel costau cyllido. Cymharir hyn â'r ffrwd refeniw net h.y. y nifer a ariennir gan y Dreth Gyngor, cyfraddau busnes a grantiau llywodraeth cyffredinol.

Tabl 10: Dangosydd Darbodus: Cyfran o gostau cyllido i ffrwd refeniw net

	Presennol 2021/22	Rhagolwg 2022/23	Cyllideb 2023/24	Cyllideb 2024/25	Cyllideb 2025/26	Cyllideb 2026/27	Cyllideb 2027/28
Costau cyllido (£m)	£3.68m	£3.25m	£3.20m	£3.31m	£3.78m	£4.06m	£4.32m
Costau cyllido fel % o ffrwd refeniw net	2.1%	1.8%	1.7%	1.7%	1.9%	2.0%	2.1%
Lefel y ddyled (£m)	£17.10m	£15.65m	£14.12m	£12.50m	£10.79m	£8.97m	£7.04m
Lefel dyled fel % o ffrwd refeniw net	9.9%	8.6%	7.5%	6.4%	5.4%	4.4%	3.4%
Lefel CFR fel % o ffrwd refeniw net	16.2%	16.9%	21.9%	22.2%	20.2%	19.8%	19.5%

- 4.2. **Cynaliadwyedd:** Oherwydd natur tymor hir iawn gwariant a chyllido cyfalaf, bydd goblygiadau cyllideb refeniw gwariant a dynnir yn y blynyddoedd nesaf yn ymestyn am hyd at 50 mlynedd i'r dyfodol. Mae Swyddog Cyllid y Comisiynydd Heddlu a Throsedd a'r Cyfarwyddwr Cyllid ac Adnoddau yn fodlon fod y rhaglen gyfalaf arfaethedig yn ddarbodus, fforddiadwy a chynaliadwy gan fod ffrydiau refeniw neu gronfeydd wrth gefn mewn lle i ariannu'r Rhaglen fel yr amlinellir. Mae'n debygol y bydd angen cyllidebu adnoddau ychwanegol ar gyfer buddsoddiadau yn y dyfodol tu hwnt i'r Rhaglen bresennol.

5. Gwybodaeth a Sgiliau

- 5.1. Mae'r Comisiynydd Heddlu a Throsedd yn cyflogi staff sydd wedi'u cymhwysu'n broffesiynol ac yn brofiadol mewn safleoedd uwch gyda chyfrifoldeb am wneud penderfyniadau ynghylch gwariant cyfalaf, benthycia a buddsoddi. Darperir hyfforddiant i holl staff sydd ynghlwm â gwneud penderfyniadau ynghylch gwariant cyfalaf, benthycia a buddsoddi.
- 5.2. Os nad oes gan staff y Comisiynydd Heddlu a Throsedd y wybodaeth a'r sgiliau angenrheidiol, defnyddir ymgynghorwyr allanol ac ymgynghorwyr sy'n arbenigwyr yn eu maes. Mae'r Comisiynydd Heddlu a Throsedd ar hyn o bryd yn cyflogi Arlingclose Limited fel ymgynghorwyr rheoli'r trysorlys. Mae'n cyflogi Wilks Head and Eve fel ymgynghorwyr eiddo. Mae'n cyflogi BDO fel ymgynghorwyr treth. Mae'r agwedd hon yn fwy cost effeithiol na defnyddio'r fath staff yn uniongyrchol. Mae'n sicrhau fod gan y Comisiynydd Heddlu a Throsedd fynediad ar wybodaeth a sgiliau sy'n gymesur â'i lefel o risg.

APPENDIX A

2021-22		2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Actuals	Description	Revised Estimate	Est	Est	Est	Est	Est	Project Costs 2022-23 to 2027-28
£000		£000	£000	£000	£000	£000	£000	£000
	Estate Programme							
26	Retentions, Consultancy and QS Sustainability Improvements	25 152	250	100	100	100		25 702
	Estates estimate 25-26 onwards				2,000			2,000
241	Pwllheli PS							0
	Holyhead PS	250	2,927	3,323				6,500
	Force HQ Canteen							0
141	Caernarfon & North Gwynedd Estate Area	250	376					626
323	VCC / Vehicle Workshop	1,577						1,577
	Armed Alliance							0
	Dolgellau PS				1,200			1,200
	Abergele PS		391					391
	Llanrwst PS	150	28					178
	Flintshire PS - North			700	2,300			3,000
	Flintshire PS - South		50	3,650	450			4,150
	Force Control Room Upgrading	150						150
	Archive Store			750				750
	Rhosllanerchrugog PS			190				190
56	Re locate/ co locate/ vacate	130	164					294
346	Firearms Base works	38				2,000		2,038
	CS - SARC ISO Accreditation	25	575					600
1,133	Total Building Works	2,747	4,761	8,713	6,050	2,100	0	24,371
	Vehicles and Other Equipment							
650	Vehicle Purchase Replacement Programme	1,485	2,856	1,620	1,756	1,300	1,642	10,659
	PSU Vehicles (replacemnt programme)			780				780
	Electric Vehicles		41	41	41	41	41	205
	Tranman development	0	60					60
	Intoxilators x 3	30						30
105	ANPR replacement	150						150
134	Collision Surveying Equipment	41						41
889	Total Vehicles and Other Equipment	1,706	2,957	2,441	1,797	1,341	1,683	11,925

2021-22		2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Actuals	Description	Revised Estimate	Est	Est	Est	Est	Est	Project Costs
£000		£000	£000	£000	£000	£000	£000	2022-23 to 2027-28
£000		£000	£000	£000	£000	£000	£000	£000
	Information Technology and Communication Equipment							
525	Desk Top Replacement (Replacement Programme)	500	682	1,800	1,736	1,054	820	6,592
	Server Replacement	280	420			700		1,400
19	Lockers for charging and storage							0
	Business Systems Servers (Replacement Programme)							0
	DFU Server replacement		270					270
	Telephony		250					250
12	Nexus Upgrade	368						368
	Digital Interview Recorder		450					450
63	NEP Device Re-build	255						255
133	Mobile data devices	468				585		1,053
	NEP Infrastructure/Sail Point/Internet Links	22						22
40	Digital Workplace audio visual	0	86					86
	Digital Intelligence & Investigation	0	196					196
1,198	Command and Control Upgrade - Phase 2	600	755					1,355
	Life-X Deployment	0		1,100				1,100
72	Emergency Service Network	0						0
	Airwave replacement units	90	285	1,000				1,375
	Body Worn Video (replacement costs)		1,100			0	1,100	2,200
	Mobile app							0
93	Wi-Fi							0
63	National Enablement Programme							0
2,218	Total Information Technology and Communication	2,583	4,494	3,900	1,736	2,339	1,920	16,972
4,240	Total Capital Expenditure	7,036	12,212	15,054	9,583	5,780	3,603	53,268

2021-22		2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Actuals	Description	Revised Estimate	Est	Est	Est	Est	Est
£000		£000	£000	£000	£000	£000	£000
1,133	Total Building Works	2,747	4,761	8,713	6,050	2,100	0
889	Total Vehicles and Other Equipment	1,706	2,957	2,441	1,797	1,341	1,683
2,218	Total Information Technology and Communication	2,583	4,494	3,900	1,736	2,339	1,920
4,240	Total Capital Expenditure	7,036	12,212	15,054	9,583	5,780	3,603
	Funding						
123	Home Office Grant	0	0	0	0	0	0
2,465	Revenue Contribution	2,946	3,327	3,082	3,025	2,726	2,280
820	Earmarked Reserves	835	2,297	1,270	0	0	0
61	Capital Receipts	426	250	2,523	750	100	0
638	Borrowing for Estates	2,271	4,386	5,790	4,620	2,000	0
133	Borrowing for replacement programme	558	1,952	2,389	1,188	954	1,323
4,240	Total Funding	7,036	12,212	15,054	9,583	5,780	3,603

Datganiad Darpariaeth Refeniw Sylfaenol Blynnyddol 2021/22

Where the Police and Crime Commissioner finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Police and Crime Commissioner to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

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

The WG Guidance requires the Police and Crime Commissioner to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

- For capital expenditure incurred before 1st April 2008 MRP will be determined as 4% of the capital financing requirement in respect of that expenditure. *(Option 2)*
- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset *in equal instalments*, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3)*
- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

Based on the Police and Crime Commissioner's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2023 Estimated CFR £m	2023/24 Budgeted MRP £
Capital expenditure before 01.04.2008	6.95	0.28
Capital expenditure after 31.03.2008	14.26	1.21
Leases and Private Finance Initiative	7.23	1.03
Total General Fund	28.44	2.52

Treasury Management Strategy Statement 2023/24

1. Introduction

1.1. Treasury management is the management of the Police and Crime Commissioner's cash flows, borrowing and investments, and the associated risks. The Police and Crime Commissioner has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Police and Crime Commissioner's prudent financial management.

1.2. Treasury risk management at the Police and Crime Commissioner is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Police and Crime Commissioner to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Police and Crime Commissioner Investments in November 2019 that requires the Police and Crime Commissioner to approve an investment strategy before the start of each financial year. This report fulfils the Police and Crime Commissioner's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.3. **Revised strategy:** In accordance with the WG Guidance, the Police and Crime Commissioner will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, in the Police and Crime Commissioner's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

2. **External Context** (*below relates to data/commentary as at 06/01/23. Further weekly 'Review and Preview' emails have also been received from Arlingclose, as well as relevant daily updates*).

2.1. **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Police and Crime Commissioner's treasury management strategy for 2023/24.

2.2. The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

2.3. The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

2.4. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

2.5. CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

2.6. The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

2.7. Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

- 2.8.** Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.
- 2.9. Credit outlook:** Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.
- 2.10.** CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.
- 2.11.** The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.
- 2.12.** There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- 2.13.** However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.
- 2.14. Interest rate forecast (December 2022):** The Police and Crime Commissioner's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.
- 2.15.** While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.
- 2.16.** Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium, and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- 2.17.** A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix C.1.

3. Local Context

- 3.1.** On 31st March 2023, the Police and Crime Commissioner is expected to hold £8.38m of borrowing and £35.02m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Capital financing requirement	28.00	28.44	32.35	37.88	40.46	39.79	37.11
Less: Other debt liabilities *	(8.23)	(7.28)	(6.24)	(5.13)	(3.91)	(2.60)	(1.17)
Loans CFR	19.77	21.16	26.11	32.75	36.55	37.19	35.94
Less: External borrowing **	(8.88)	(8.38)	(7.88)	(7.38)	(6.88)	(6.38)	(5.88)
Internal (over) borrowing	10.89	12.78	18.23	25.37	29.67	30.81	30.06
Less: Balance sheet resources	(41.00)	(47.81)	(38.40)	(32.92)	(30.60)	(29.67)	(28.75)
(Treasury investments) or new borrowing	(30.11)	(35.03)	(20.17)	(7.55)	(0.93)	1.14	1.31

* leases and PFI liabilities that form part of the Police and Crime Commissioner's total debt

** shows only loans to which the Police and Crime Commissioner is committed and excludes optional refinancing

- 3.2.** The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Police and Crime Commissioner's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3.** The Police and Crime Commissioner has an increasing CFR due to the capital programme but decreasing investments may lead to a need to borrow up to £7.2m (which includes £5.88m of existing borrowing) over the forecast period to maintain a positive level of liquidity/breakeven (see also 3.5 below). However, if the capital programme is delayed this will also impact on the timing of our need to borrow.

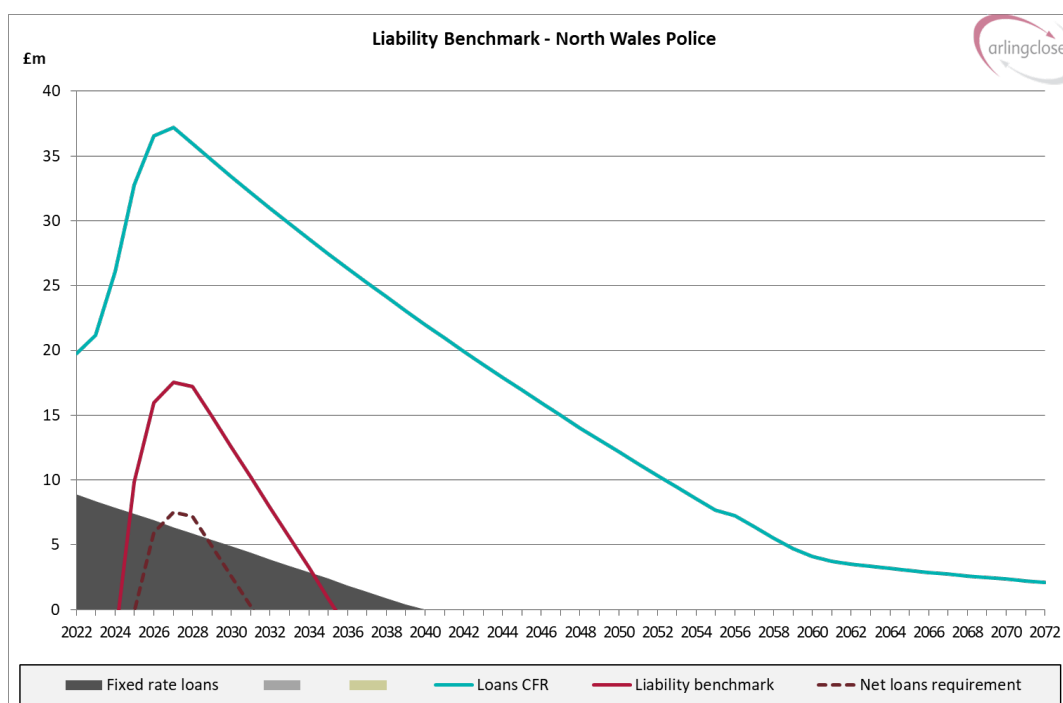
- 3.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Police and Crime Commissioner's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Police and Crime Commissioner expects to comply with this recommendation during 2023/24.
- 3.5. **Liability benchmark:** To compare the Police and Crime Commissioner's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.
- 3.6. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	19.77	21.17	26.10	32.75	36.55	37.20	35.94
Less: Balance sheet resources	(41.00)	(47.81)	(38.40)	(32.92)	(30.60)	(29.67)	(28.75)
Net loans requirement	(21.23)	(26.64)	(12.30)	(0.17)	5.95	7.53	7.19
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Liability benchmark	(11.23)	(16.64)	(2.30)	9.83	15.95	17.53	17.19

- 3.7. Following on from the medium-term forecasts in table 2 above, the Police and Crime Commissioner plans to remain borrowed in line with its cash-flow forecast to minimise risk. The cash-flow forecast reflects the peaks and troughs over the financial year whereas the liability benchmark reflects a specific point in time – both need to be considered when deciding to borrow:

Graph 1: Liability Benchmark



4. Borrowing Strategy

- 4.1. The Police and Crime Commissioner currently holds £8.38 million of loans, a decrease of £0.50 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Police and Crime Commissioner does not expect to need to borrow in 2023/24. The Police and Crime Commissioner may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £33.34 million.

4.2. Objectives: The Police and Crime Commissioner'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 Police and Crime Commissioner's long-term plans change is a secondary objective.

4.3. Strategy: Given the significant cuts to public expenditure and to local government funding, the Police and Crime Commissioner's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.4. By doing so, the Police and Crime Commissioner can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Police and Crime Commissioner with this 'cost of carry' and breakeven analysis. Its output may determine whether the Police and Crime Commissioner borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. The Police and Crime Commissioner has previously raised all its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions, and local authorities, to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; however, the Police and Crime Commissioner intends to avoid this activity and so will retain its access to PWLB loans.

4.6. Alternatively, the Police and Crime Commissioner may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.7. In addition, the Police and Crime Commissioner may borrow short-term loans to cover unplanned cash flow shortages.

4.8. Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Gwynedd Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Police and Crime Commissioner bond issues

4.9. Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

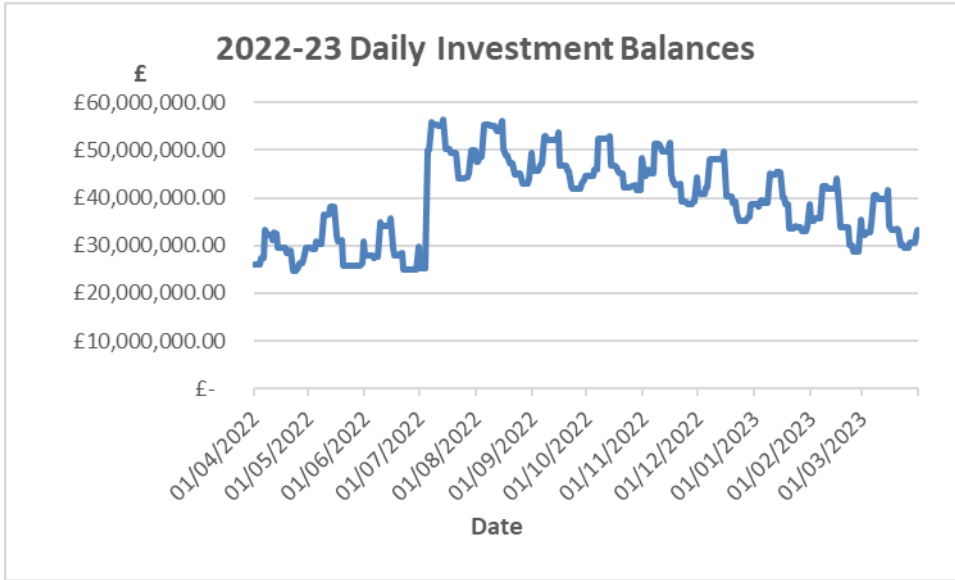
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.10. Short-term and variable rate loans: These loans leave the Police and Crime Commissioner exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. However normal practice is to borrow and/or invest at fixed rates which removes any interest rate exposure risk.

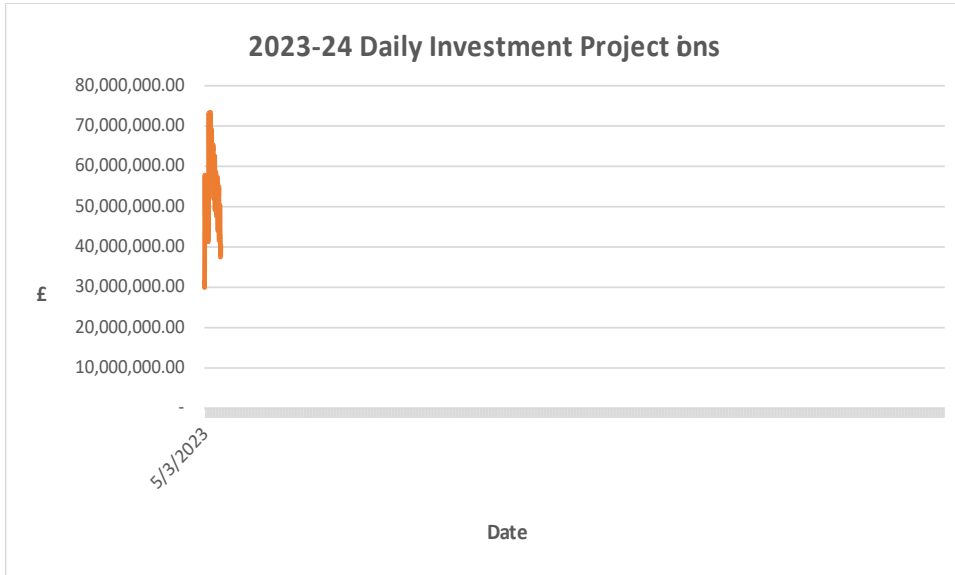
5. Treasury Investment Strategy

5.1. The Police and Crime Commissioner holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Police and Crime Commissioner's treasury investment balance has ranged between £56.4 and £24.8 million (Graph 2). Projections for the forthcoming year show a similar trend except for the Home Office Welsh Top-Up Grant of £22.5m being paid in one lump sum upfront in April 2023 (as opposed to monthly instalments) (Graph 3).

Graph 2: Daily investment balance (2022-23)



Graph 3: Daily investment projection (2023-24)



- 5.2. Objectives:** Both the CIPFA Code and the WG Guidance require the Police and Crime Commissioner to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Police and Crime Commissioner’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. Where balances are expected to be invested for more than one year, the Police and Crime Commissioner will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Police and Crime Commissioner aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 5.3. Strategy:** As demonstrated by the liability benchmark above, the Police and Crime Commissioner expects to be a long-term borrower and treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

- 5.4. ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Police and Crime Commissioner's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Police and Crime Commissioner will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. Arlingclose intend to publish on a quarterly basis which counterparties and fund managers are signatories to ESG-related initiatives.
- 5.5. Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Police and Crime Commissioner's "business model" for managing them. The Police and Crime Commissioner aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 5.6. Approved counterparties:** The Police and Crime Commissioner may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Counterparty limit (Proposed)	Counterparty limit (Current)	Sector limit
The UK Government	Unlimited	Unlimited	n/a
Local authorities & other government entities	£7.5m	£7m	Unlimited
HSBC ^{1*}	£10m	£10m	n/a
Secured investments *	£7.5m	£7m	Unlimited
Banks (unsecured) *	£5m	£4m	Unlimited
Building societies (unsecured) *	£4m	£4m	Unlimited
Registered providers (unsecured) *	£5m	£4m	£5m
Money market funds *	£5m	£4m	Unlimited
Strategic pooled funds*	£5m	£4m	£5m

¹ These are the Commissioner's bankers and are currently rated AA- by Fitch credit rating agency
This table must be read in conjunction with the notes below.

- 5.7. *Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.
- 5.8. Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 5.9. Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 5.10. Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of

credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.11. Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.12. Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Police and Crime Commissioner will take care to diversify its liquid investments over a variety of providers to ensure access to always cash.

5.13. Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Police and Crime Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Police and Crime Commissioner's investment objectives will be monitored regularly.

5.14. Operational bank accounts: The Police and Crime Commissioner may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Police and Crime Commissioner maintaining operational continuity.

5.15. Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Police and Crime Commissioner's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be,
- and full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.16. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.17. Other information on the security of investments: The Police and Crime Commissioner understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Police and Crime Commissioner's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.18. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Police and Crime Commissioner will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Police and Crime Commissioner's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.19. Investment limits: The Police and Crime Commissioner’s revenue reserves available to cover investment losses are forecast to be £48 million on 31st March 2023 and £36 million on 31st March 2024. In order that these reserves are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be as shown in table 3 above. It is proposed to slightly increase these limits from 2023/24 onwards to reflect the increase in cashflow projection as outlined in Graph 3. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.20. Liquidity management: The Police and Crime Commissioner uses purpose-built cash flow forecasting methods to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Police and Crime Commissioner being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Police and Crime Commissioner’s medium-term financial plan and cash flow forecast. The Police and Crime Commissioner will spread its liquid cash over approved providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Prudential Indicators

6.1. The Police and Crime Commissioner measures and manages its exposures to treasury management risks using the following indicators.

6.2. Security: The Police and Crime Commissioner has adopted a voluntary measure of its exposure to credit risk by setting a minimum credit rating of A- for its investments.

Credit risk indicator	Target
Minimum credit rating for investments	A-

6.3. Liquidity: The Police and Crime Commissioner has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling twelve-month period, without additional borrowing. For practical purposes a lower operational limit of £7.5 million for a maximum of 14 days will be set to avoid unnecessary short-term borrowing.

Liquidity risk indicator	Limit
Minimum cash available within 12 months	£10m
Lower limit for a maximum of 14 days	£7.5m

6.4. Interest rate exposures: This indicator is set to control the Police and Crime Commissioner’s exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£50,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£50,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. However normal practice is to borrow and/or invest at fixed rates which removes any interest rate exposure risk.

6.5. Maturity structure of borrowing: This indicator is set to control the Police and Crime Commissioner’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
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Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 6.6. Long-term treasury management investments:** The purpose of this indicator is to control the Police and Crime Commissioner’s exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£5m	£3m	£1m

7. Related Matters

- 7.1.** The CIPFA Code requires the Police and Crime Commissioner to include the following in its treasury management strategy.
- 7.2. Financial derivatives:** In the absence of any explicit legal power to do so, the Police and Crime Commissioner will not use standalone financial derivatives (such as swaps, forwards, futures, and options). Derivatives embedded into loans and investments, including pooled funds, and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.
- 7.3. Markets in Financial Instruments Directive:** The Police and Crime Commissioner has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Police and Crime Commissioner’s treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.
- 7.4. Government Guidance:** Further matters required by the WG Guidance are included in Appendix C.2.

8. Financial Implications

- 8.1.** The budget for investment income in 2023/24 is £1 million (£0.15 million permanent budget, and £0.85 million temporary budget increase due to higher projected interest rates). The budget for debt interest paid in 2023/24 is £0.10 million, based on committed fixed rate long term loans and an estimate to cover potential short-term borrowing. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

9. Other Options Considered

- 9.1.** The CIPFA Code does not prescribe any treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted the Joint Audit Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Arlingclose Economic & Interest Rate Forecast – December 2022**Underlying assumptions:**

- The influence of the mini budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March, and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Police and Crime Commissioner's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Police and Crime Commissioner's investments contribute to its service delivery objectives and supports effective treasury management activities.

Climate change: The Police and Crime Commissioner's investment decisions consider long-term climate risks to support a low carbon economy.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local Police and Crime Commissioner,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local Police and Crime Commissioner, parish council or community council, or
 - a body or investment scheme of "high credit quality".

The Police and Crime Commissioner defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the Police and Crime Commissioner temporarily transfers cash to a third party, joint venture, subsidiary, or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local Police and Crime Commissioner.

The Police and Crime Commissioner uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Police and Crime Commissioner has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment, or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. The Police and Crime Commissioner confirms that it doesn't currently have any non-specified investments

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. The Police and Crime Commissioner does not hold any non-financial investments.

Investment advisers: The Police and Crime Commissioner has appointed Arlingclose Limited as treasury management advisers. The quality of these services is managed by regular strategy meetings, review of data provided and professional judgement.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed.

Capacity and skills: The Police and Crime Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Training is provided to all staff involved in making capital expenditure, borrowing and investment decisions.

Corporate governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Police and Crime Commissioner and Joint Audit Committee (JAC). End of year and half yearly reports on treasury

management activity are presented to SEB and JAC. The JAC is responsible for scrutinising treasury management decisions.