NORTHUMBRIA POLICE AND CRIME COMMISSIONER

Key Decisions

Title and Reference

Approval for the Treasury Policy Statement and Treasury Strategy 2019/20 to 2022/23

(PCC/370/2019)

Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) have produced the Code of Practice on Treasury Management (the Code) which represents best practice in Treasury Management. By adopting the attached Treasury Policy Statement and Treasury Strategy for 2019/20 to 2022/23 the Commissioner will ensure Treasury business is delivered in accordance with the CIPFA Code.

The proposed Strategy was reviewed by the Joint Independent Audit Committee on 25 February 2019, where it was agreed to recommend to the Commissioner the adoption of the four year Treasury Policy Statement and Treasury Strategy.

Recommendation

It is recommended that the Commissioner adopts the Treasury Policy Statement and Treasury Strategy 2019/20 to 2022/23.

Northumbria Police and Crime Commissioner

I hereby approve the recommendations above.

Signature **Date 28.02.19**

OPCC BUSINESS MEETING	28 FEBRUARY 2019
TREASURY POLICY STATEMENT & TREASURY STRATEGY 2019/20 TO 2022/23	
REPORT OF: THE JOINT CHIEF FINANCE OFFICER	
AUTHOR: KEVIN LAING, HEAD OF FINANCE	

1 PURPOSE

1.1 To review and adopt the attached four year Treasury Policy Statement and Strategy 2019/20 to 2022/23.

1.2 The Treasury Policy Statement and Strategy was considered and scrutinised by the Joint Independent Audit Committee (JIAC) at its meeting on 25 February 2019. At the meeting JIAC recommended the Treasury Policy Statement and Strategy to be presented to the Police and Crime Commissioner for adoption

2 RECOMMENDATION

2.1 OPCC is recommended to:

(i) Adopt the attached four year 2019/20 to 2022/23 Treasury Policy Statement and Strategy.

3 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Code of Practice on Treasury Management (the Code) which represents best practice in Treasury Management. By adopting the attached Treasury Policy Statement and Strategy for 2019/20 to 2022/23 - see Appendices - the Commissioner contributes towards achieving best practice.

3.2 Part 1 of the Local Government Act 2003 specifies the powers of local authorities to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. For the purpose of the Local Government Act 2003 Police and Crime Commissioners are classified as local authorities. The CIPFA Prudential Code for Capital sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code also refers to the need for a clear and integrated Treasury Strategy.

3.3 In addition, under Section 15 of the Local Government Act 2003, local authorities are required to have regard to the MHCLG's Guidance on Local Government

Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy.

4. TREASURY POLICY AND TREASURY STRATEGY

4.1 The Treasury Policy 2019/20 to 2022/23 is set out in Appendix 1, and details the overarching approach to the provision of Treasury Management which includes the Treasury Strategy, Investment Strategy and appropriate delegations.

4.2 The Treasury Strategy for 2019/20 to 2022/23 covers the specific activities proposed for the next four years in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times. The Strategy is attached at Appendix 2 to this report.

4.3 The Treasury Strategy complies with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities and Part 1 of the Local Government Act 2003.

4.4 In addition, there are further Appendices 3 to 7, which set out the current interest rate forecasts, Prudential Treasury Indicators, Specified Investments, Maximum Maturity Periods, and details of foreign countries that could be invested with, all of which underpin the core approach detailed in the Strategy.

5 FURTHER INFORMATION

5.1 The following documents have been used in preparation of the report:

- Local Government Act 2003.
- MHCLG Guidance on Local Government Investments.
- CIPFA's Prudential Code for Capital 2017.
- CIPFA's Code of Practice on Treasury Management 2017.
- The approved Treasury Management Practice Statements as used for day to day management purposes.
- Link Asset Services Treasury Management Strategy template 2019/20.

6 CONSIDERATIONS

Freedom of Information	NON-EXEMPT
Consultation	Yes
Consultation has taken place with external treasury advisers Link Asset Services.	

Resource	Yes
There are no financial implications directly arising from the contents of this report. Any income and expenditure within the scope of the report is already included in the agreed revenue budget.	
Equality	No
Legal	No
Risk	Yes
The Treasury Policy and Strategy recommended for approval have been prepared with the aim of maintaining the security and liquidity of investments to ensure that the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim.	
Communication	No
Evaluation	No

Appendix 1

Treasury Policy 2019/20 to 2022/23

1. Introduction

1.1 The Commissioner has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) and maintains:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of our treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the policies and objectives are carried out, and prescribing how the activities will be managed and controlled.

1.2 CIPFA defines Treasury Management as:

'The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.3 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy will be approved by the Police and Crime Commissioner as part of the budget setting process for 2019/20.

1.4 The Police and Crime Commissioner for Northumbria has not engaged in any commercial investments and has no non-treasury investments.

1.5 The Police and Crime Commissioner for Northumbria has delegated responsibility to the Chief Finance Officer (CFO) for the treasury management function and the undertaking of investment and borrowing on behalf of the Commissioner, ensuring that all activities are in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services.

2. Treasury Strategy

2.1 The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Commissioner.

2.2 The Treasury Strategy encompasses the requirements of CIPFA's Treasury Management Code of Practice, CIPFA's Prudential Code and the MHCLG's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy Statement.

2.3 The Treasury Strategy covers the following:

a) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.
b) Prospects for interest rates.
c) The borrowing strategy.
d) Debt rescheduling.
e) Policy on borrowing in advance of need.
f) Management of interest rate exposure.
g) The investment strategy.
h) Creditworthiness policy.
i) The policy on the use of external service providers.

2.1 The strategy for 2019/20 to 2022/23 is attached at Appendix 2.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Commissioner may borrow money:

a) For any purpose relevant to its functions under any enactment; or
b) For the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Code of Practice on Treasury Management in the Public Services the following indicators have been adopted:

- Compliance with the Code of Practice on Treasury Management in the Public Services.
- Calculations of:
  - Authorised limit.
  - Operational boundary.
  - Actual external debt.
  - Maturity structure of borrowing.
  - Upper limits for principal sums invested for periods of over 365 days.
  - Gross debt and Capital Financing Requirement.

3.3 Given the link to the budget and capital programme, these indicators were approved by the Commissioner on 21 February 2019 as part of the 2019/20 Budget and council tax precept report. For completeness, the approved indicators are also attached to the Treasury Strategy at Appendix 4.

3.4 Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2019/20 is included in appendix 4.

4. Annual Investment Strategy

4.1 Part 1 of the Local Government Act 2003 relaxed the investment constraints for local authorities.

4.2 The MHCLG has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to "have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify". The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an annual investment strategy. This is included as Section 6 of the Treasury Strategy in Appendix 2.

4.4 The annual investment strategy document will include:

- The Commissioner's risk appetite in respect of security, liquidity and return.
- The definition of 'high' and 'non-high' credit quality to determine what are specified investments and non-specified investments.
- Which specified and non-specified instruments the Commissioner will use, dealing in more detail with non-specified investments given the greater potential risk.
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies.
- The types of investments that may be used during the course of the year.
- The limit to the total amount that may be held in each investment type.
- The Commissioner's policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Commissioner will deal with changes in ratings, rating watches and rating outlooks.
- Limits for individual counterparties, groups and countries.
- Guidelines for making decisions on investments and borrowing.

5. Policy on Interest Rates Exposure

5.1 The Commissioner's approach to managing interest rate exposure is described at section 4.11 of the Treasury Strategy 2019/20 to 2022/23.

5.2 The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the CFO will require approval from the Commissioner prior to entering into any arrangement of this nature.

6. Policy on External Managers

6.1 Treasury management advisers (Link Asset Services, Treasury Solutions) assist the Commissioner in achieving the objectives set out in the Treasury Policy Statement. This contract is reviewed annually. The CFO has not appointed external investment fund managers to directly invest the Commissioner's cash.

7. Policy on Delegation, Review Requirements and Reporting Arrangements

7.1 It is the Commissioner's responsibility under the Code to approve a Treasury Policy Statement.

7.2 The Commissioner delegates the review and scrutiny of the Treasury Management Strategy and Policies, along with monitoring performance by receiving the mid-year review and annual report, to the Joint Independent Audit Committee, and the execution and administration of Treasury Management decisions to the CFO. Any proposals to approve, adopt or amend policy require the consent of the Commissioner and are matters for the Commissioner to determine.

7.3 The Commissioner will receive:

a) A four year Treasury Strategy report, including the annual Investment Strategy, before the commencement of each financial year.

b) A mid-year report on borrowing and investment activity.

c) An annual report on borrowing and investment activity by 30 September of each year.

d) A Capital Strategy report providing the following:

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

Appendix 2

Treasury Strategy 2019/20 to 2022/23

1. Introduction

1.1 The Treasury Strategy has been prepared in accordance with the Treasury Management Code of Practice (the Code). The Code emphasises a number of key areas including the following:

a) The Code must be formally adopted.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Commissioner's treasury management activities.

c) The Commissioner's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.

e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.

f) A sound diversification policy with high credit quality counterparties which considers setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.

h) The main annual treasury management reports must be approved by the Commissioner.

i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.

j) Each Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.

k) Treasury management performance and policy setting should be subjected to prior scrutiny.

l) Commissioner's and scrutiny members dealing with treasury management activities should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

m) Responsibility for these activities must be clearly defined within the organisation.

n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.

1.2 The management of day to day working capital (cash flow) including the requirement for temporary borrowing and/or investment will be monitored along with the limits noted below.

The Commissioner will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Area of Responsibility	**Commissioner/ Committee/ Officer**	**Frequency**
Treasury Management Policy & Strategy / Annual Investment Strategy	Commissioner with review delegated to Joint Independent Audit Committee	Annually before the start of the year
Annual Report	Commissioner with review delegated to Joint Independent Audit Committee	Annually by 30 September after the end of the year
Scrutiny of treasury management performance via mid-year report	Commissioner with review delegated to Joint Independent Audit Committee	Mid-Year
Scrutiny of treasury management strategy, policies and procedures	Joint Independent Audit Committee	Annually before the start of the year
Treasury Management Monitoring Reports, including any amendments to Treasury Management Practices	CFO	Monthly report, bi-monthly monitoring meeting

1.3 The revised Treasury Management Code covers the following Prudential Indicators which were approved by the Commissioner on 21 February 2019:

- Authorised limit for external debt.
- Operational boundary for external debt.
- Actual external debt.
- Upper and lower limits to the maturity structure of borrowing.
- Upper limits to the total principal sums invested longer than 365 days.
- Gross debt and Capital Finance Requirement.

1.4 In addition to the above indicators, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.5 The strategy covers:

a) Prospects for interest rates.

b) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.

c) The borrowing strategy.

d) Sensitivity forecast.

e) External and internal borrowing.

f) Debt rescheduling.

g) Policy on borrowing in advance of need.

h) The investment strategy.

i) The policy on the use of external service providers.

2. Prospects for Interest Rates

2.1 The table shown below outlines the Commissioner's view of anticipated movements in interest rates, based on guidance received from the Commissioner's treasury management advisers Link Asset Services. *(LINK Updated Interest Rate Forecast report 07/01/2019) (Includes a 20 basis point PWLB 'certainty rate' discount effective 1/11/2012)* A more detailed interest rate forecast is shown in Appendix 3.

	March 2019	**June 2019**	**Sept 2019**	**Dec 2019**	**March 2020**	**March 2021**	**March 2022**
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.50%	2.00%
5 yr PWLB*	2.10%	2.20%	2.20%	2.30%	2.30%	2.60%	2.80%
10 yr PWLB	2.50%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%
25 yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.40%	3.60%
50 yr PWLB	2.70%	2.80%	2.90%	2.90%	3.20%	3.20%	3.40%

* (PWLB) Public Works Loan Board is a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB's function is to lend money to other prescribed public bodies.

Economic Background

2.2 The Monetary Policy Committee (MPC), increased Bank Rate from 0.50% to 0.75% on 2 August 2018. At their November quarterly Inflation Report meeting, the MPC stated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

2.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. However, in view of the hawkish stance of the MPC at their November 2018 meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

2.4 The overall balance of risks to economic growth in the UK is probably neutral.

Investment and Borrowing Rates

2.5 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

2.6 The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

2.7 The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

2.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.9 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3. Treasury Limits for 2019/20 to 2022/23 including Prudential Indicators

3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Commissioner to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires the Commissioner to calculate the budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Commissioner for the foreseeable future.

3.2 It is a statutory duty under Section 3 of Part I of the Local Government Act 2003**,** and supporting regulations, for the Commissioner to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.

3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing Commissioners to invest in capital projects without any limit as long as they are affordable, prudent and sustainable.

3.4 The Commissioner must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Commissioner to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is affordable.

3.5 To facilitate the decision making process and support capital investment decisions the Prudential Code and the Treasury Management Code requires the Commissioner to agree and monitor a minimum number of prudential indicators. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

3.6 The following indicator provides a debt related activity limit:

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

3.7 The treasury limits and prudential indicators have been reviewed and updated and approved by the Commissioner on 21 February 2019. They can be found attached at Appendix 4.

3.8 Minimum revenue provision (MRP): Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2019/20 is included in appendix 4.

3.9 The CFO has systems in place to monitor the treasury limits and will report to the Commissioner instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4. Borrowing Strategy

4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.

4.2 The main options available for the borrowing strategy for 2019/20 are PWLB loans, market loans and a potential option to use the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.

4.3 Variable rate short term borrowing is expected to be cheaper than long term fixed borrowing and therefore may be considered throughout the financial year. Due to the expectation that interest rates will rise, the risk of the potential increase in interest rates will be balanced against any potential short term savings.

4.4 There are different types of market loans available, including variable and fixed interest rate loans. These loans are usually offered at an interest rate lower than the corresponding PWLB loan rate to try to encourage local authorities and other public sector bodies to use as an alternative to PWLB. They may only be attractive if they are forward starting i.e. to secure the rate at an earlier point than actually drawing down the funds to mitigate interest rate risk and avoid the cost of carry.

4.5 To mitigate variable interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing 2019/20.

4.6 The Commissioner is in the process of rationalising the estate and is expecting around £23m from the sale of assets over the term of this strategy. In light of this any borrowing decisions will need to take this into account.

4.7 The main strategy is therefore:

- Consider the use of short term borrowing as a bridge until receipts are received.
- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate, where they become available.
- When PWLB rates fall back to or below Link Asset Services trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

4.8 In addition, reserve and fund balances may be utilised to limit the new external borrowing requirement, or to make early debt repayments, as an alternative to investing these resources. Reducing investment balances rather than increasing external borrowing could reduce interest payable, as short term rates on investments are likely to be lower than rates paid on external borrowing, and limit exposure to investment risk.

Sensitivity of the Forecast

4.9 The Commissioner, in conjunction with Link Asset Services, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

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

4.10 Against this background, caution will be adopted in the management of the 2019/20 treasury operations. The CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Commissioner.

Interest Rate Exposure

4.11 Interest rate exposure is managed and monitored through the use of forward balance sheet analysis. This approach requires consideration of the level of the Commissioner's underlying borrowing requirement (CFR) compared to its actual external borrowing position, to ensure the Commissioner remains comfortable with the level of interest payable budget subject to movements in interest rates. Borrowing decisions will be made with reference to the capital plans and core cash position of the Commissioner in association with both the interest rate forecast (section 2.1), and maturity profile of the current portfolio. Investment decisions will be made with reference to the core cash balances, cash flow requirements and the outlook for short-term interest rates.

External and Internal Borrowing

4.12 As at 31st January 2019 the Commissioner has net debt of £83.515m; this means that borrowing is currently higher than investments with total borrowing of £102.969m and investments of £19.454m.

4.13 Investment interest rates are expected to be below long term borrowing rates throughout 2019/20 therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). A close watch will be kept on interest rate movements to ensure that interest rates do not rise quicker than forecast. The Commissioner has set trigger rates for long term borrowing and when these rates are attained consideration will be given to long term borrowing. Any short term savings gained by deferring long term borrowing will be weighed against the potential for incurring additional long term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

4.14 The CFO has examined the potential for undertaking early repayment of some external debt to the PWLB in order to benefit from lower interest rates currently available. The significant difference between early redemption rates and interest rates payable on PWLB debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by the PWLB.

Borrowing in advance of need

4.15 The Commissioner will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. In accordance with the revised Code, any decision to borrow in advance will be considered carefully to ensure value for money. Specifically, there will be a clear link to the capital investment programme, which supports the decision to take funding in advance of need.

5. Debt Rescheduling

5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.

5.2 The reasons for any proposed rescheduling will include:

- The generation of cash savings at minimum risk.
- In order to amend the maturity profile and/or the balance of volatility in the Commissioner's borrowing portfolio.

5.3 The CFO in line with delegated powers outlined in the approved Treasury Management Practice Statement will approve all debt rescheduling.

5.4 As short term borrowing rates are expected to be lower than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Opportunities identified will take into consideration the likely cost of refinancing these short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

5.5 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

5.6 All rescheduling will be reported to Commissioner in the mid-year and annual reports.

6. Investment Strategy 2019/20 to 2022/23

Introduction

6.1 The Commissioner has regard to the MHCLG's Guidance on Local Government Investments and CIPFA's Code of Practice. The Commissioner must produce a strategy on an annual basis which covers the subsequent four year period.

6.2 This annual strategy maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below and in Appendix 5. The policy also ensures that it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These are detailed in Appendix 6.

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

6.4 Specified investments are denominated in Sterling, are for periods of 365 days or less and do not involve the acquisition of share or loan capital in any body corporate. Such an investment will be with either:

- The UK Government or a local authority, parish or community council, or
- A body or investment scheme which has been awarded a high credit rating by a credit rating agency.

6.5 Non-specified investments are deemed more risky and guidance on local government investments requires more detailed procedures. Such procedures are required in order to regulate prudent use and establish maximum amounts which may be invested in each category.

6.6 Both specified and non-specified investment types currently utilised by the Commissioner are detailed in Appendix 5, along with approved limits. In addition to these numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the options will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

6.7 All investments will be in Sterling.

6.8 The Commissioner's primary investment objective is the security of the capital investment. The Commissioner will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.

6.9 The borrowing of monies purely to invest is unlawful and the Commissioner will not engage in such activity.

Changes to the Credit Rating Methodology

6.10 The rating element of our own credit assessment process focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

6.11 The Police and Crime Commissioner will continue to use UK banks irrespective of the UK sovereign rating and will continue to specify a minimum sovereign rating of AA+ for non-UK banks. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background, will still have an influence on the ratings of a financial institution.

Creditworthiness Policy

6.12 The creditworthiness service provided by Link Asset Services is used to assess the creditworthiness of counterparties. The service provided by Link Asset Services uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.13 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Commissioner to determine the duration for investments and are therefore referred to as durational bands. The Commissioner is satisfied that this service gives the required level of security for its investments. It is also a service which the Commissioner would not be able to replicate using in-house resources.

6.14 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information, information on government support for banks and the credit ratings of the government support.

6.15 The Commissioner has also determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment. These "high" ratings allow investments to be classified as **specified investments,** where they are sterling denominated and of 365 days or less. The Commissioner's approved limits for the "high" credit rating for deposit takers are as follows:

High Rated	**Fitch**	**Moody's**	**Standard & Poor's**
Short term (ability to repay short term debt)	F1+	P-1	A-1+
Long term (ability to repay long term debt)	AA-	Aa3	AA-
MMF Rating	AAAmmf	AAA-mf	AAAm

6.16 To ensure consistency in monitoring credit ratings throughout 2019/20 the Commissioner will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties, as the credit rating agency issuing the lowest rating could change throughout the year as agencies review the ratings that they have applied to countries, financial institutions and financial products. The ratings of all three agencies will be considered, with Fitch being used as a basis for inclusion on the lending list.

In addition to this the Link Asset Services creditworthiness service will be used to determine the duration that deposits can be placed for. This service uses the ratings from all three agencies, but by using a scoring system, does not give undue consideration to just one agency's ratings.

6.17 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.

6.18 UK Government nationalised/part nationalised banks will have a maximum limit of 25% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £20m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.

6.19 Where more than one counterpart, from a group, is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.

6.20 A number of counterparties are also approved by the CFO for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the CFO prior to investments being placed.

Nationalised/Part Nationalised Banks

6.21 Where the bank has not been fully nationalised but receives substantial support from the UK Government (greater than 40% ownership) the individual rating of the bank will not be taken into consideration and the relevant banks will be included on the Commissioner's lending list as prescribed by the Link Asset Services creditworthiness list as detailed in 6.14.

Foreign Banks

6.22 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list. They must also meet the high rated lending criteria and have operations based in London. Limits will be prescribed by the Link Asset Services creditworthiness list and limited to 365 days or less. Each non-UK country will be limited to the maximum investment limit of £20m or 20% of the Commissioner's total investments. A list of those countries with a minimum sovereign rating of AA+ is set out in Appendix 7.

Local Authorities

6.23 The Commissioner invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis and agreed by the CFO, prior to funds being placed. Limits are detailed at Appendix 6.

Non-specified Investments

6.24 In addition to the above specified investments, the Commissioner has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non High Rated	Fitch	Moody's	Standard & Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

Limits for non-high rated counterparties are detailed at Appendix 6.

6.25 The Commissioner has also set appropriate limits for non-specified investments with "high" rated deposit takers and UK Local Authorities where investments can be out to a maximum of 3 years. The Commissioner's approved limits for the "high" credit rating for deposit takers are set out at 6.17 above and investment limits are detailed at Appendix 6.

6.26 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. In addition, the Commissioner has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Asset Services creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- If counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Commissioner's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Commissioner's criteria, its inclusion will be considered for approval by the CFO.

6.27 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information on government support for banks and the credit ratings of government support.

Investment Balances / Liquidity of investments

6.28 The Commissioner deposits funds beyond 365 days to a maximum of three years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.29 Deposits for periods longer than 365 days are classed as **non-specified investments.**

Investments defined as capital expenditure

6.30 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as **'non-specified investments'**.

6.31 A loan or grant by the Commissioner to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Commissioner. It is therefore important for the Commissioner to clearly identify if the loan was made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Commissioner for 'specified' and 'non-specified' investments.

Internal Investment Strategy

6.32 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.

6.33 The Commissioner takes the view that base rate will remain at 0.75% until quarter 2 2019. Future increases to base rate are estimated at 0.25% in quarter 1 and Q4 in 2020. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

6.34 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

6.35 The Commissioner will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

6.36 The Commissioner will use an investment benchmark to assess the investment performance of its investment portfolio against the 7 day LIBID.

Money Market Fund (MMF) Reforms in Europe

6.37 In June 2017 the Money Market Fund Regulation was published in the EU Official Journal, formally commencing the compliance process for new and existing funds. Whilst the regulation came into force for new funds created from 21 July 2018, existing funds were required to be compliant by no later than 21 January 2019.

6.38 The regulation provides for two types of MMFs, (i) Short-term and (ii) Standard. In addition there are three structural options:

- Public Debt Constant Net Asset Value (CNAV) – must invest 99.5% of their assets into government debt instruments, reverse repos collateralised with government debt, cash, and are permitted to maintain a constant dealing NAV.
- Low Volatility Net Asset Value (LVNAV) – permitted to maintain a constant NAV provided that certain criteria are met, including that the market NAV does not deviate from the dealing NAV by more than 20 basis points (bps).
- Variable Net Asset Value (VNAV) – Funds which price their assets using market pricing and therefore offer a fluctuating dealing NAV.

6.39 The Regulation requires that MMF managers perform a rigorous internal credit quality assessment of money market instruments, as well as implementing a prudent stress testing regime. Moreover, such credit analysis is to be undertaken by individuals separate from the team responsible for the day-to-day management of the MMF portfolio.

6.40 The advice from Link Asset Services is that "given our understanding of the market, via detailed discussions with existing fund managers, we do not believe that this change will materially alter current investment approaches."

6.41 The Commissioner will therefore maintain the existing approach to utilise only those short term MMFs with the highest credit rating of AAA and with fund assets over £1bn, as set out above and in Appendices 5 and 6. As expected the MMF's currently used by the commissioner have all moved to LVNAV and have maintained their AAA ratings.

End of year investment report

6.42 By the end of September each year the PCC will receive a report from Joint Audit Committee on its investment activity as part of its annual treasury report.

Policy on use of external service providers

6.43 The Commissioner uses Link Asset Services, Treasury Solutions as its external treasury management advisers.

6.44 The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

Scheme of Delegation

6.46 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed below:

Commissioner

- Set and approve treasury management policy and strategy prior to the start of each financial year.
- Approve prudential and treasury indicators and any subsequent amendments if required.
- Agree and approve annual treasury management budgets.
- Approve any proposed variations in treasury strategy or policy.
- Agree annual report.
- Monitor Prudential and Treasury Indicators.
- Receive and review monitoring reports including the annual report and act on recommendations.

Joint Independent Audit Committee

- Scrutinise the treasury management strategy, policies and practices and make recommendations to the Commissioner
- Receive, scrutinise and approve mid-year monitoring report and annual report.

Role of the Section 151 Officer (Chief Finance Officer)

As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

7. Other Issues

Heritable Bank Deposits

7.1 The former Police Authority had a deposit of £5.238m invested in Heritable Bank, a wholly owned subsidiary of Icelandic Bank, Landsbanki, when it entered administration in October 2008. The full deposit in Heritable was due to mature by the end of 2008/09 with interest

7.2 To date dividends totalling £5.194m have been received representing 98p in the £.

7.3 The balance of the investment sum outstanding is therefore £0.044m.

7.4 The most recent update from the administrators, Ernst and Young, in August 2018, confirmed the detail of all dividends received to date. They proposed to apply for a further extension to the administration for a period of one year. This is to allow sufficient time for the ongoing investigations to proceed to a conclusion, and they hope to be in a position to resolve matters in the foreseeable future. No further dividend is expected until the administrators conclude their work.

Interest Rate Forecasts 2019 to 2022 **Appendix 3**

PWLB rates set out in the table below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

Appendix 4

Prudential Indicators – Treasury Management

Prudential Indicators

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

Authorised Limit for External Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

Authorised Limit - this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Operational Boundary - this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the PCC. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Authorised Limit for External Debt

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Borrowing	175,000	175,000	180,000	175,000
Other Long Term Liabilities	0	0	0	0
Total	**170,000**	**180,000**	**180,000**	**180,000**

Operational Boundary for External Debt

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Borrowing	150,000	150,000	155,000	150,000
Other Long Term Liabilities	0	0	0	0
Total	**145,000**	**155,000**	**155,000**	**155,000**

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2022/23. The maturity structure of debt is within the indicators set.

Upper and Lower Limits for the Maturity Structure of Borrowing

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

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

Upper and Lower Limits for the Maturity Structure of Borrowing

Following the changes in guidance issued by CIPFA the maturity structure of borrowing is required to cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

	Upper Limit	Lower Limit
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%

Upper Limit on Principal Amounts Invested Beyond 365 Days

The purpose of the upper limit on principal amounts invested beyond 365 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

Upper limit on principal amounts invested beyond 365 days	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Gross Debt and CFR	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Forecast Borrowing as at 31 March	93,713	102,237	111,362	110,637
Capital Financing Requirement as at 31 March	108,744	108,435	111,444	110,719
Amount of borrowing (over) / under CFR	15,031	6,198	82	82

Forecast borrowing is within the CFR estimates for 2019/20 to 2022/23.

Affordability

The impact of the capital programme on the revenue budget is shown in the table below:

Affordability	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Revenue Budget	280,082	284,200	284,000	287,600
Capital Expenditure	17,248	18,279	14,065	6,739
Capital Financing Requirement as at 31 March	108,744	108,435	111,444	110,719
Interest Cost	3,270	3,415	3,664	3,764
Minimum Revenue Provision	6,422	5,908	5,777	5,801
Revenue Financing Costs	9,692	9,323	9,441	9,565
Ratio of financing cost to revenue stream %	3.46%	3.28%	3.32%	3.33%

Minimum Revenue Provision (MRP) Statement 2019/20

The MRP charge for 2019/20 for capital expenditure incurred before 01 April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at a minimum of 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the year after the asset becomes operational.

Appendix 5

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expenditure	Circumstance of use	Maximum period
Term deposits with the UK Government (DMO) or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. *See section 6*	No	In-house	365 days
Term deposits / Certificates of Deposit with credit rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating *See section 6*	No	In-house	365 days
Money Market Funds (CNAV & LVNAV ***(not VNAV)*** These funds are instant access and therefore do not have a maturity date.	No	Yes	Secure AAA Money Market Fund rating with assets > £1bn	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits / Certificates of Deposit with rated deposit takers (banks and building societies) which do not meet the Commissioner's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Fitch Long term A- Short term F1*	No	In-house	75%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	20%	3 years

Appendix 6

Maximum Maturity Periods and Amounts

Organisation	**Criteria**	**Max Amount**	**Max Period**	**Not to Exceed Limit or %**
High Rated	Minimum Fitch rating of F1+ short term and AA- long term.			25% (Government Backed)
(Specified Investments – High rated and up to 365 days see Appendix 5)	Consideration to be given to Moody's minimum rating of P-1 short term backed by Aa3 long term and S&P minimum rating of A-1+ short term and AA- long term.	£20m	3 years	20% (Non-Government Backed)
Foreign Banks	Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m country limit	365 days	20%
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Consideration to be given to Moody's minimum rating of P-1 short term backed by A3 long term and S&P minimum rating of A-1 short term and A- long term.	£7.5m	6 months	20%
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years	n/a
Money Market Funds	CNAV or LVNAV ***(not VNAV)*** AAA Money Market Fund rating with assets >£1bn	£7.5m per counter party	Overnight	£25m in total

Appendix 7

Approved countries for investments

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 21/01/2019. The list shows the lowest rating from Fitch, Moody's and S&P as provided by external treasury advisers Link Asset Services.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- U.K.