

TREASURY POLICY STATEMENT & TREASURY STRATEGY 2017/18 TO 2020/21**REPORT OF THE JOINT CHIEF FINANCE OFFICER**

1 Purpose of the Report

- 1.1 To review and recommend the adoption by the Commissioner of the attached four year 2017/18 to 2020/21 Treasury Policy Statement and Strategy.

2 Background

- 2.1 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 2017/18 to 2020/21 – see Appendix 1 - the Commissioner contributes towards achieving best practice.
- 2.2 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.
- 2.3 In addition, under Section 15 of the Local Government Act 2003, local authorities are required to have regard to the CLG'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.

3. Treasury Policy and Treasury Strategy

- 3.1 The Treasury Policy 2017/18 to 2020/21 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.
- 3.2 The Treasury Strategy for 2017/18 to 2020/21 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.
- 3.3 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.
- 3.4 In addition, there are further Appendices 3 to 7, which set out the current interest rate forecasts, Prudential Treasury Indicators, Specified Investments, Maximum Maturity

NOT PROTECTIVELY MARKED

Periods, and details of foreign countries that could be invested with, all of which underpin the core approach detailed in the Strategy.

4 Equal Opportunities Implications

- 4.1 It is considered that there are no equal opportunities implications arising from the report.

5 Human Rights Implications

- 5.1 It is considered that there are no human rights implications arising from the report.

6 Risk Management Implications

- 6.1 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.

7 Financial Implications

- 7.1 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.

8 Recommendation

- 8.1 To recommend the adoption by the Commissioner of the attached four year 2017/18 to 2020/21 Treasury Policy Statement and Strategy.

9 Background Information

- 9.1 The following documents have been used in preparation of the report:
- Local Government Act 2003;
 - CLG Guidance on Local Government Investments;
 - CIPFA's Prudential Code for Capital;
 - CIPFA's Code of Practice on Treasury Management;
 - The approved Treasury Management Practice Statements as used for day to day management purposes; and
 - Capita Asset Services Treasury Management Strategy template 2017/18.

Treasury Policy 2017/18 to 2020/21

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 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 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 CLG'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) The investment strategy;
- g) Creditworthiness policy; and
- h) The policy on the use of external service providers.

2.4 The strategy for 2017/18 to 2020/21 is attached at Appendix 2.

NOT PROTECTIVELY MARKED

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;
 - Upper limit on fixed interest rate exposures;
 - Upper limit on variable interest rate exposures;
 - Maturity structure of borrowing;
 - Upper limits for principal sums invested for periods of over 364 days; and
 - 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 23rd February 2017 as part of the 2017/18 Budget and council tax precept report. For completeness, the approved indicators are also attached to the Treasury Strategy at 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 CLG 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;

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

- 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; and
- Guidelines for making decisions on investments and borrowing.

5. Policy on Interest Rates Exposure

- 5.1 The 2017/18 Budget and Precept report, approved by the Commissioner on 23rd February 2017, sets treasury limits for the maximum and minimum level of exposure to fixed and variable interest rates. 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 (Capita Asset Services, Treasury Solutions) assist us 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 of the policy, monitoring of the performance of the treasury management function and the scrutiny of Treasury Management Strategy and policies 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, and
 - c) An annual report on borrowing and investment activity by 30 September of each year.

NOT PROTECTIVELY MARKED

Treasury Strategy 2017/18 to 2020/21

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.

NOT PROTECTIVELY MARKED

- 1.3 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	CFO	Monthly/Weekly
Treasury Management Practices	CFO	Monthly

- 1.4 The revised Treasury Management Code covers the following Prudential Indicators which were approved by the Commissioner on 23rd February 2017:

- Authorised limit for external debt;
- Operational boundary for external debt;
- Actual external debt;
- Upper limits on fixed and variable rate exposure;
- Upper and lower limits to the maturity structure of borrowing;
- Upper limits to the total principal sums invested longer than 364 days; and
- Gross debt and Capital Finance Requirement.

- 1.5 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.

- 1.6 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; and
- i) The policy on the use of external service providers.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

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 Capita Asset Services, and various brokers. (*CAPITA Updated Interest Rate Forecast report 9/2/2017*) (Includes a 20 basis point 'certainty rate' discount effective 1/11/2012) A more detailed interest rate forecast is shown in Appendix 3.

	March 2017	June 2017	Sept 2017	Dec 2017	March 2018	March 2019	March 2020
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%
5 yr PWLB*	1.60%	1.60%	1.60%	1.60%	1.70%	1.80%	2.00%
10 yr PWLB	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.70%
25 yr PWLB	2.90%	2.90%	2.90%	3.00%	3.00%	3.20%	3.40%
50 yr PWLB	2.70%	2.70%	2.70%	2.80%	2.80%	3.00%	3.20%

* (PWLB) Public Works Loan Board, 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), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
- 2.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments

NOT PROTECTIVELY MARKED

2.4 Long Term Interest Rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt; and
- 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 2017/18 to 2020/21 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 1 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. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact

NOT PROTECTIVELY MARKED

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 These indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- 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 These indicators have been reviewed and updated and were approved by the Commissioner on 23rd February 2017. They can be found attached at Appendix 4.

3.8 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 2017/18 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 and Lender Option/Borrower Option (LOBO) loans. A LOBO is a loan where the lender can exercise their right to increase the interest rate of the loan at each call date. The borrower can then choose to either accept the higher interest rate or repay the loan. These loans are usually offered at an interest rate lower than the corresponding PWLB loan rate but this option increases the risk that it may be necessary to replace a loan at a time when the interest rates are high.

4.5 To mitigate this 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 2017/18.

The Commissioner is in the process of rationalising the estate and is expecting around £30m 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.

NOT PROTECTIVELY MARKED

4.6 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 Capita Asset Services trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

4.7 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

4.8 The Commissioner, in conjunction with Capita 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.*

4.9 Against this background, caution will be adopted in the management of the 2017/18 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.

External and Internal Borrowing

4.10 As at 31st January 2017 the Commissioner has net debt of £71.194m; this means that borrowing is currently higher than investments with total borrowing of £81.465m and investments of £10.271m.

4.11 Investment interest rates are expected to be below long term borrowing rates throughout 2017/18 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). Any short term savings gained from adopting this approach will be

NOT PROTECTIVELY MARKED

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.

- 4.12 The CFO has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. 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

- 4.13 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.

4.14 Municipal Bond Agency

It is likely that the recently established Municipal Bond Agency will be offering loans in the near future, to which the Commissioner may have an option to access. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Commissioner will consider making use of this new source of borrowing as and when appropriate.

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; and
 - 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.

NOT PROTECTIVELY MARKED

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

6. Investment Strategy 2017/18 to 2020/21

Introduction

6.1 The Commissioner has regard to the CLG'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 364 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.

NOT PROTECTIVELY MARKED

- 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 main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
- 6.11 In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now 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.
- 6.12 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. While the Police and Crime Commissioner understands the changes that have taken place, we 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.
- 6.13 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

Creditworthiness Policy

- 6.14 The creditworthiness service provided by Capita Asset Services is used to assess the creditworthiness of counterparties. The service provided by Capita Asset Services uses a sophisticated modelling approach with credit ratings from all three 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; and
 - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 6.15 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.
- 6.16 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.
- 6.17 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 of 364 days or less to be classified as **specified investments**. The Commissioner's approved limits for this "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	P1	A1
Long term (ability to repay long term debt)	AA-	Aa3	AA-

- 6.18 To ensure consistency in monitoring credit ratings throughout 2017/18 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 CAPITA 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.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

- 6.19 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Capita 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.
- 6.20 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.
- 6.21 Where more than one counterparty 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.
- 6.22 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

- 6.23 A number of banks in the UK do not conform to the credit criteria usually used to identify banks that are of high credit worthiness. In particular, as they are no longer separate institutions in their own right it is impossible for an individual rating to be assigned to them. Due to Government ownership these institutions now have the highest short-term rating possible as they effectively take on the creditworthiness of the Government and deposits placed with them are effectively with the Government. Taking this into consideration they have the highest rating possible. As a result of this when deposits are being considered with these counterparties the limits will be in accordance with the Capita Asset Services creditworthiness list.
- 6.24 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 Capita Asset Services creditworthiness list as detailed in 6.14.

Foreign Banks

- 6.25 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 Capita Asset Services creditworthiness list and limited to 364 days or less. Each 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+ are shown in Appendix 7.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

Local Authorities

- 6.26 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

- 6.27 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 and non-rated building societies are detailed at Appendix 6.

- 6.28 The credit ratings will be monitored as follows:
- All credit ratings are reviewed weekly. 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 Capita Asset Services creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Capita Asset Services.
 - If a 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.
- 6.29 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

- 6.30 The Commissioner deposits funds beyond 364 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 364 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.
- 6.31 Deposits for periods longer than 364 days are classed as **non-specified investments** and this will increase the total limit of overall deposits in this classification to 75%.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

Investments defined as capital expenditure

- 6.32 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**'.
- 6.33 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 (e.g. to a registered social landlord for the construction/improvement of dwellings) 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

- 6.34 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.
- 6.35 The Commissioner takes the view that base rate will remain at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:
- 2016/17 0.25%
 - 2017/18 0.25%
 - 2018/19 0.25%
 - 2019/20 0.75%
- 6.36 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.
- 6.37 The Commissioner will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 364 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

- 6.38 The commissioner will use an investment benchmark to assess the investment performance of its investment portfolio against the 7 day LIBID.

End of year investment report

- 6.39 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.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

Policy on use of external service providers

- 6.40 The Commissioner uses Capita Asset Services, Treasury Solutions as its external treasury management advisers.
- 6.41 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.
- 6.42 It also 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 their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation

- 6.43 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; and
- Receive and review monitoring reports including the annual report and act on recommendations.

Audit Committee

- Scrutinise the treasury management strategy, policies and practices and make recommendations to the Commissioner;
- Receive and review monitoring reports including the annual report; and
- Scrutinise and approve the mid-year monitoring 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 regular 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; and
- Recommending the appointment of external service providers.

NOT PROTECTIVELY MARKED

7. Other Issues**Heritable Bank Deposits**

- 7.1 When Heritable Bank entered administration in October 2008 the former Police Authority had £5.238m invested which was due to mature with interest by the end of 2008/09; the total value including accrued interest was £5.300m.
- 7.2 To date dividends totalling £5.194m have been received representing 98p in the £.
- 7.3 The balance of the investment outstanding is therefore £0.106m.

Interest Rate Forecasts 2017 to 2020

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Bank Rate														
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB Rate														
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
Capital Economics	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%	3.20%
10yr PWLB Rate														
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
Capital Economics	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%	3.60%
25yr PWLB Rate														
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
Capital Economics	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%	4.15%
50yr PWLB Rate														
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Capital Economics	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%	4.10%

Prudential Indicators – Treasury Management**Appendix 4**

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				
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Borrowing	170,000	175,000	170,000	165,000
Other Long term Liabilities	0	0	0	0
Total	170,000	175,000	170,000	165,000

Operational Boundary For External Debt				
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Borrowing	145,000	150,000	145,000	140,000
Other Long term Liabilities	0	0	0	0
Total	145,000	150,000	145,000	140,000

Treasury Indicators

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2020/21. The maturity structure of debt is within the indicators set.

Upper Limit on Fixed and Variable Interest Rates Exposures

The setting of upper and lower limits on fixed and variable interest rate exposure has the effect of creating ranges within which a Commissioner will limit its exposure to both fixed and variable interest rate movements. It provides a single point of control over the overall interest obligations on a net basis. Indicators are set by considering as many borrowing and investment scenarios as possible, providing a framework that the Commissioner can work within.

Upper limits on variable interest rate exposure – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper limits on fixed interest rate exposure – this is similar to the previous indicator and covers a maximum limit on fixed interest rates.

Upper Limit on Fixed and Variable Interest Rates Exposures				
Range	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Fixed Rate:				
Upper	129,465	110,885	105,969	97,969
Lower	(13,561)	(24,719)	(29,128)	(28,628)
Variable Rate:				
Upper	9,446	6,689	6,097	5,597
Lower	(20,000)	(20,000)	(20,000)	(20,000)

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.

Treasury Indicators

Upper and Lower Limits for the Maturity Structure of Borrowings

	Upper Limit	Lower Limit
Under 12 months	70%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	65%	0%
10 years and above	80%	0%

Upper Limit on Amounts Invested Beyond 364 Days

The purpose of the upper limit on amounts invested beyond 364 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 Amounts Invested Beyond 364 Days				
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

Gross Debt and CFR	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Forecast Borrowing as at 31 March	101,885	104,969	100,969	97,969
Capital Financing Requirement as at 31 March	102,244	106,520	103,064	100,179
Amount of borrowing (over) / under CFR	359	1,551	2,095	2,210

Forecast borrowing is within the CFR estimates for 2017/18 to 2020/21.

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 364 days.	No	Yes	High security although LA's not credit rated. <i>See section 6</i>	No	In-house	364 days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits with maturities up to 364 days.	No	Yes	Secure Varied minimum credit rating <i>See section 6</i>	No	In-house	364 days
Money Market Funds (including 7 day notice account) These funds are instant access and therefore do not have a maturity date.	No	Yes	Secure AAA long-term rating backed up with lowest volatility rating (MR1+) 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
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 <i>Minimum: Fitch Long term A- Short term F1</i>	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	No	No	Secure Varied minimum credit rating	No	In-house	20%	3 years

NOT PROTECTIVELY MARKED

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
Certificate of Deposits issued by banks and building Societies	<p>A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits.</p> <p>B) Credit risk could change but if adverse there is an option to sell onto a secondary market.</p> <p>The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.</p>	No	Yes	Secure Varied minimum Credit rating <i>Minimum: Fitch Long term A- Short term F1</i>	No	In House	20%	6 months (but set on an individual counterparty basis)

Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount	Max Period	Not to Exceed Limit or %
High Rated (Specified Investments – High rated and up to 364 days see Appendix 5)	Minimum Fitch rating of F1 short term and AA- long term. Consideration to be given to Moody's minimum rating of P1 short term backed by Aa3 long term and S&P minimum rating of A1 short term and AA- long term.	£20m	3 years	25% (Government Backed) 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	364 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 P1 short term backed by A3 long term and S&P minimum rating of A1 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	AAA long-term rating backed up with lowest volatility rating (MR1+) with assets >£1bn	£7.5m per counter party	Overnight	£25m in total

Approved countries for investments**Appendix 7**

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 20/02/2017.

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- U.K.