COMMUNITY JUSTICE SECURITY

EXECUTIVE ORDER 0063 - TREASURY MANAGEMENT STRATEGY

By the authority of the Police and Crime Commissioner as designated by the Police Reform and Social Responsibility Act 2011, and, by democratic mandate invested in me by the electorate of Northamptonshire, I have taken the following decision:

To approve the Treasury Management Strategy for 2016/17, a copy of which is published on my website.

ADAM SIMMONDS
NORTHAMPTONSHIRE POLICE AND CRIME COMMISSIONER
30th March 2016

Equality, Diversity and Human Rights
No issues

Other Advice Taken
Advice was taken from the Director for Resources, Governance and Transformation

The Treasury Management Strategy is published in full on the PCC website

recd 30th March 2016,
agreed

NORTHAMPTONSHIRE POLICE AND CRIME COMMISSIONER

1st April 2016

Treasury Management Strategy Statement 2016-17

Minimum Revenue Provision Policy Statement
and
Annual Investment Statement

1. Introduction

1.1 Background

Treasury management is defined as:

"The management of the OPCC 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. "

1.2 Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Commission to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential treasury indicators for the next three years to ensure that the Commission's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Commission to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); this sets out the Commission's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 CIPFA requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009 with some minor revisions in 2011) was adopted by the former Northamptonshire Police Authority on 1st April 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commission's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Commission will seek to achieve those policies and objectives.
3. Receipt by the Commissioner of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy (MRP) - for the year ahead, a mid-

year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Commission the delegated body is the Joint Independent Audit Committee (JIAC).

1.4 Treasury Management Strategy for 2016/17

The strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Commission's treasury adviser, Capita Asset Services.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Commission
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

1.5 Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Commission to produce a balanced budget to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects,

are limited to a level which is affordable within the projected income of the Commission for the foreseeable future.

2. Treasury Limits for 2016/17 to 2017/18, actual 15/16, to estimates 2019/20

It is a statutory duty under Section 3 of the Act and supporting regulations, for the Commission to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Commission must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon the future Commission Council Tax is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in appendix 3 of this report.

3. Current Portfolio Position

The Commission's treasury portfolio position at 1st April 2016 comprises:

TABLE 1				Average rate
		£'m	£'m	%
Fixed rate funding:	-PWLB	£1.3		**4.79%**
	-Market	£0.0		
			£1.3	**4.79%**
Variable rate funding:	-PWLB	£0.0		
	-Market	£0.0		
Other long term liabilities:			0.0	
Gross Debt			£1.3	**4.79%**
Total investments			(£13.5)	0.76%
Net Borrowing			(£12.2)	(0.03%)

4. Borrowing Requirement

The Commission's borrowing requirement is as follows:

TABLE 2	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	Probable	Estimate	Estimate	Estimate
					0
Opening Borrowing	1,300	5,589	25,000	25,000	25,000
New Borrowing	4,289	19,411	0	0	0
Alternative Financing Arrangements	0	0	0	0	0
Replacement Borrowing	0	0	0	0	0
Repayment of Debt	0				
Total CFR (borrowing requirement)	**5,589**	**25,000**	**25,000**	**25,000**	**25,000**

Capital Financing Requirement (CFR) is a prudential indicator. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commission's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

The minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes.

The **Authorised Limit** for external debt sets the maximum level of external borrowing that the Commission can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. It is the Commission's expected maximum borrowing need with additional scope for unexpected cashflow. The limit also provides scope for the Commission to borrow in advance of its need. The Affordable Borrowing Limit is the Commissioners Capital Investment plans that are affordable, prudent and sustainable and that local strategic planning and asset management planning are in place, in line with the Authorised Limit.

The **Operational Boundary** for external debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short -term periods during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similar to the authorised limit it also provides scope for the Commission to borrow in advance of its need.

5. Prudential and Treasury Indicators for 2015/16 – 2016/17

Prudential and Treasury Indicators (as set out in tables 3, 4 and 5 in appendix 3 to this report) are relevant to the setting of an integrated Treasury Management strategy.

The Commission is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. Both the 2001 Code and the revised 2011 Code have been adopted in formulating the annual review of the Treasury Management Strategy.

6. Prospects for Interest Rates

The Commission has appointed Capita Asset Services as treasury advisor and part of their service is to formulate a view on interest rates going forward over the medium term. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate), longer fixed interest rates. The following table gives the Capita Asset Services central view.

Bank Rate forecast for financial year ends (March)*

Annual Average %	Bank Rate %
Mar 2016	0.50
Jun 2016	0.50
Sep 2016	0.50
Dec 2016	0.75
Mar 2017	0.75
Jun 2017	1.00
Sep 2017	1.00
Dec 2017	1.25
Mar 2018	1.25
Jun 2018	1.50
Sep 2018	1.50
Dec 2018	1.75
Mar 2019	1.75

*Capita information as at 4th February 2016

UK growth surged during 2013 and 2014 but slowed somewhat towards the end of 2014. UK GDP growth rates have fluctuated during 2015, the February Bank of England Inflation Report included a forecast for growth to remain at 2.2 to 2.4% over the next three years. This is mainly driven by strong consumer demand due to to a recovery in wage inflation coinciding with a reduction in CPI inflation to nearly zero. The Bank of England February Inflation Report was subdued in respect of the forecasts for inflation in the near term due to the further recent falls in oil and commodity prices which will delay any significant increase from zero. There is also the uncertain impact of the EU referendum which will take place in June 2016.

7. Borrowing Strategy

7.1 Borrowing rates

The Capita comparison and forecast for the PWLB new borrowing rate is as follows: -

Annual Average %	PWLB Borrowing Rates % (including certainty rate adjustment)		
	5 year	25 year	50 year
Mar 2016	2.00	3.40	3.20
Jun 2016	2.10	3.40	3.20
Sep 2016	2.20	3.50	3.30
Dec 2016	2.30	3.60	3.40
Mar 2017	2.40	3.70	3.50
Jun 2017	2.50	3.70	3.60
Sep 2017	2.60	3.80	3.70
Dec 2017	2.70	3.90	3.80
Mar 2018	2.80	4.00	3.90
Jun 2018	2.90	4.00	3.90
Sep 2018	3.00	4.10	4.00
Dec 2018	3.10	4.10	4.00
Mar 2019	3.20	4.10	4.00

The Commission's borrowing strategy will give consideration to new borrowing in the following order of priority: -

1. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years (at £20m the difference in interest rates between Mar 16 and 19 equate to £2m over the life of a potential 25 year loan)
2. Temporary borrowing from the money markets or other local authorities
3. PWLB variable rate loans for up to 10 years
4. Short dated borrowing from non PWLB sources
5. Long term fixed rate loans at rates significantly below PWLB rates or market debt in the debt portfolio.
6. PWLB borrowing for periods under *5 years* where rates are expected to be lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

Sensitivity of the forecast – The Commission is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Comissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Corporate Finance Team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *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. Currently, it is unlikely that we would consider debt rescheduling due to the level of current borrowing and costs of ending those loans.

- *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 a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then any proposed portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be drafted and then passed to Acting Director of Resources at the earliest opportunity for a decision on policy.

7.2 External v. internal borrowing

- This Commission currently has net investments (after deducting outstanding borrowing), of £12.2m.
- The general aim of this treasury management strategy is to optimise the amount of long term funding taken over the next 3 years taking into account the credit risk incurred with investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 9) so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Commission obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
- The next financial year is expected to continue with a low Bank Rate of 0.50% to 0.75%. This provides a continuation of the current window of opportunity for the commission to run down investments short to medium term to part-fund the Capital Financing Requirement of the Capital Programme (this is referred to as internal borrowing). This would maximise short term savings.
- However, short term savings by avoiding new long term external borrowing in 2016/17 will be weighed up against the potential for incurring additional long term costs as a result of delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

Against this background caution will be adopted with the 2016/17 treasury operations. The Acting Head of Finance (the Chief Constable's deputy S151 Officer) will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

7.3 Policy on borrowing in advance of need

The Commission will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Commission can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Commission will: -

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance, on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them

8. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment.

The reasons for any rescheduling to take place will include: -

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the strategy outlined in paragraph 7 above
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit Committee, at the earliest meeting following its action. Currently the debt is £1.3 million which reduces the opportunity for rescheduling.

9. Annual Investment Strategy

9.1 Investment Policy

The Commission's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commission's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.

The Commission will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Commission is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Commission will not engage in such activity.

Investment instruments identified for use in the financial year are listed in appendix 4 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Commission's Treasury Management Practices – Schedules.

9.2 Creditworthiness policy

This Commission uses the creditworthiness service provided by Capita Asset Services (Capita). This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS (Credit default swaps – Market indicator of risk associated with a counterparty) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Commission to determine the duration for investments and are therefore referred to as durational bands. The Commission is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Commission would not be able to replicate using in house resources.

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' s weekly credit list of worldwide potential counterparties. The Commission will therefore use counterparties within the following durational bands:-

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi Nationalised UK banks and building societies)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

The Capita creditworthiness service use ratings from all three agencies, and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a weekly basis. The Commission is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Commission's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Commission will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Commissions lending list.

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

9.3 Country limits

The Commission has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch Ratings or its equivalent Moody's and Standard and Poors. The list of countries that qualify using this credit criteria as at the date of this report are shown in appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The exception to this is if the UK were to be downgraded below the minimum level (as specified within Appendix 5), the Commission would still continue to invest with UK institutions as it considers the UK Government's guarantee of financial institutes is enough mitigation to warrant continuation of investment.

9.4 Investment Strategy

In-house funds*:* the Commission's in-house managed funds are mainly cash-flow driven. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Interest rate outlook: Bank Rate has been unchanged at 0.5% since March 2009 with the forecast starting to rise from quarter 4 of 2016. Bank rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in bank rate occurs later). However, should the pace of growth quicken, there could be an upside risk.

The suggested budget investment earnings rates on investment placed up to 100 days during each financial year end for the next five years are as follows;

2016/17	0.60%
2017/18	1.25%
2018/19	1.75%
2019/20	2.25%
2020/21	2.50%

For its cash flow generated balances, the Commission will seek to utilise its business reserve accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

9.5 End of year investment report

At the end of the financial year, the Commission will report on its investment activity as part of its Annual Treasury Report.

9.6 External fund managers

£7.66m of the Commission's funds are externally managed on a discretionary basis by Investec Asset Management.

The Commission's external fund manager will comply with the Annual Investment Strategy. The agreement between the Commission and the fund manager additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The managed portfolio is designed to achieve greater results than the ONPCC normally can achieve using standard investment strategies. The managed portfolio ensures a spread of investments and analysis to ensure appropriate limitation of risks, utilising;

5/10/40 rule – Good diversification
This refers to counterparty exposure and implies 40% of the fund can hold between 5%-10% in any one issuer, the balance (60%), has to be below 5% in any one issuer, ensuring a good spread of risk.

9.7 Policy on the use of external service providers

The Commission uses Capita Asset Services as its external treasury management advisers.

The Commission 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.

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 Commission 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.

9.8 Scheme of delegation

See appendix 6.

9.9 Role of the section 151 officer

See appendix 7.

Appendices

1. MRP strategy
2. Interest rate forecasts
3. Prudential and Treasury indicators
4. Specified and non-specified investments
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

APPENDIX 1

Minimum Revenue Provision Policy Statement 2016/17

The Commission implemented the new Minimum Revenue Provision (MRP) guidance in *2010/11,* and will assess their MRP for *2016/17* in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

All of the existing debt as at 1st April 16 of the MRP for 2016/17 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 2 of the guidance. Expenditure following 1st April 16 will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Commission. However, the Commission reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Commission are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

APPENDIX 2 Interest Rate Forecasts

The data below shows comparison of historic and forecasted rates.

Capita: interest rate comparison and forecast

*as at 23rd February 2016

Capita Asset Services Interest Rate View

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Bank Rate												
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	2.00%
Capital Economics	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	-	-	-	-
5yr PWLB Rate												
Capita Asset Services	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%	2.80%	2.90%	3.00%
Capital Economics	2.10%	2.20%	2.50%	2.55%	2.80%	2.80%	3.05%	3.05%	-	-	-	-
10yr PWLB Rate												
Capita Asset Services	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.30%	3.40%	3.50%
Capital Economics	2.85%	2.85%	3.10%	3.10%	3.30%	3.30%	3.45%	3.45%	-	-	-	-
25yr PWLB Rate												
Capita Asset Services	3.20%	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%	3.70%	3.70%	3.80%
Capital Economics	2.85%	2.85%	3.10%	3.10%	3.30%	3.30%	3.45%	3.45%	-	-	-	-
50yr PWLB Rate												
Capita Asset Services	3.00%	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	2.90%	2.90%	3.15%	3.15%	3.35%	3.35%	3.50%	3.50%	-	-	-	-

APPENDIX 3 Prudential and Treasury Indicators

TABLE 3: PRUDENTIAL INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
Extract from budget setting report	**actual**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
TOTAL	7,823	25,033	5,910	2,393	2,216
Net borrowing requirement					
brought forward 1 April	1,300	5,589	25,000	25,000	25,000
Repayment of Debt					
in year borrowing requirement	4,289	19,411	0	0	0
carried forward 31 March	5,589	25,000	25,000	25,000	25,000
Capital Financing Requirement as at 31 March					
Capital expenditure	7,823	25,033	5,910	2,393	2,216
Annual change in Cap. Financing Requirement					
Capital Expenditure	168	826	0	0	0
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in precept per annum	1.36	6.45	0.00	0.00	0.00

TABLE 4: TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt -					
borrowing	10,000	28,000	28,000	28,000	28,000
other long term liabilities	0	0	0	0	0
TOTAL	**10,000**	**28,000**	**28,000**	**28,000**	**28,000**
Operational Boundary for external debt-					
borrowing	2,000	25,000	25,000	25,000	25,000
other long term liabilities	0	0	0	0	0
TOTAL	**2,000**	**25,000**	**25,000**	**25,000**	**25,000**
Actual external debt	5,589	25,000	25,000	25,000	25,000
Upper limit for fixed interest rate exposure					
Net interest re fixed rate borrowing / investments	2.50%	3.50%	4.10%	4.10%	4.10%
Upper limit for variable rate exposure					
expressed as either:-					
Net interest re variable rate borrowing / investments	0.50%	0.50%	0.50%	0.50%	0.50%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	£1m	£1m	£1m	£1m	£1m

TABLE 5: Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
under 12 months*	33%	0%
12 months and within 24 months	33%	0%
24 months and within 5 years	33%	0%
5 years and within 10 years	33%	0%
10 years and above	100%	0%

* There will be no repayment within 2016/17

APPENDIX 4 Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:
Excluding Investec, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable

	Minimum Credit Criteria / colour band	**Use**
Debt Management Agency Deposit Facility	-	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies	See note 1	In-house

Term deposits with nationalised banks and banks and building societies operating with government guarantees

	Minimum Credit Criteria	**Use**	**Max total investment**	**Max. maturity period**
Contracted Bank Group (Natwest)	See note 1 & 2	In-house	**£30m ***	**364 days**
Contracted Bank Group Short Term Interest Bearing Account (SIBA)	See note 1 & 2	In-house	**£8m**	**364 days**
Investec Asset Management	Rated at appointment	In-house	**£10m**	**On-going**
UK national banks	See note 1	In-house	**£5m**	**364 days**
UK nationalised banks	See note 1	Fund Managers	**£5m**	**364 days**
UK Building Societies	See note 1	Fund Managers	**£3m**	**182 days**
Banks nationalised by high credit rated (sovereign rating**) countries – non UK	Sovereign rating	In-house and Fund Managers	**£5m**	**182 days**

* This is an extremely unlikely situation, the £30m is a contingency should Grants, Precepts and other funding be received on the same day into the Natwest Account and/or there was another banking crisis resulting in frozen

accounts or there is not the capacity to transfer funds out to call accounts/ money markets or investments.

** Sovereign Rating is the rating of the country see Appendix 5

Where significantly advantageous for Value for Money purposes or unavoidable due to exceptional situations, such as banking crisis, individual cases to exceed the above stated limits, will be made to the Acting Director of Resources to approve time limited changes, which will not exceed 6 months in each individual case.

Note 1

These colour codes are used by the Commission to determine the suggested duration for investments.The Comission will therefore use counterparties within the following durational bands;

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK banks and building societies)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
Up to 5yrs	Up to 2yrs	Up to 1yrs	Up to 1yrs	Up to 6mths	Up to 100days	None

Note 2

The Commission contracts a UK nationalised bank to provide its banking facilities. The risk of failure of any bank is equally weighted across any given working day/ hour, it is important that the Commission highlights that if the bank were to fail, any assets at this time would be frozen and all deposits at that point in time potentially seized (subject to a governmental guarantee).

Therefore, the calculated maximum liability for the Commission's own bank could be in excess of £28m (current cash flow assumes the busiest transactional day would be £6m Revenue Grant, £13m Police Pension Top Up Grant, £5m Precept (Council Tax) Income, any other given adhoc income received and £8m invested within the high interest account provider by Natwest known as SIBA (Short Term Interest Bearing Account).

The banking community is tightening up third party deposit management, which has resulted in occasional requirements for minimum deposits to exceed £10m with providers meeting the minimum risk criteria. This combined with Fiscal constraints has meant that many providers are offering below Bank of England interest rates (even when terms over 3 months are agreed, with the UK Debt Management Office offering either zero or negative interest rates within June 2013) and this has left the Commission either unable to place risk adverse deposits or to place deposits within interest bearing facilities.

The guarantee previously offered by the UK Government generally covers the Commission's banking provider, however, this could change if the fiscal position of the UK economy changes, but this would also affect other facility providers and would require a full review of the Commission's TM strategy.

Therefore, it has been determined that where the Commission is unable to place deposits with providers that meet the minimum creditworthiness criteria, a provider offers interest that are either negative or zero or those providers require deposits that is above the maximum investible threshold for the Commission, that the Commission assumes a strategy to minimise the risk to cash balances and to maintain Value for Money within the TM strategy. The approved process is to maintain balances within its own banking provider up to the limit of £30m on any given day*, but this will be subject to daily review and scrutiny by the investment team. This will give the Commission the flexibility to move and manage these funds at very short notice and not to hamper cash flow management, whereas placing deposits with long term providers to avoid the £5m cap, could result in cash flow management difficulties and not reduce perceived risk.
*unless under exceptional circumstances, such as with the 2007/08 banking crisis, and the Director for Resources Governance, and Transformation approves such a decision.

Deposits across the Commission's Banking Group (the three Natwest OPCC Bank Accounts and Natwest SIBA account) that exceed the standard £8m TM cap (excluding end of day balances which do not usually exceed £0.1m (£8.1m)) as a result of not being able to invest in another body, will not be held for a time exceeding 30 days without referral to the Acting Director for Resources. But in accordance with the above, any balance above £8.1m will be reviewed on a daily basis until it can be reduced to the standard allowable threshold (£8.1m).

NON-SPECIFIED INVESTMENTS: *Excluding Investec, a* maximum of 20% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	See note 1	In-house	100%	2 years
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	See note 1	In-house and Fund Managers	20%	364 days

Note 1

Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
Up to 5yrs	Up to 2yrs	Up to 1yrs	Up to 2yrs	Up to 6mths	Up to 100days	None

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	20%	2 years
Term deposits – banks and building societies	See note 1	In-house	100%	2 years

See Note 1

Data as at 1st April and is subject to review.

APPENDIX 5 Approved countries for investments*

**As at 2nd February and could be significantly affected by the EU referendum on 23rd June.*

AAA

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

AA+

- Finland
- UK
- U.S.A.

AA

- Abu Dhabi (U.A.E)
- France
- Qatar

AA-

- Belgium

It is assumed unless the UK reduces below BB that this will continue to be an investible country, unless mandated by UK Government to ensure liquidity of UK nationwide resources and GDP (e.g as part of a UK banking crisis requiring the UK Government to ensure that liquid cash balances are maintained within the UK).

APPENDIX 6 Treasury management scheme of delegation

(i) Commissioner

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(ii) The Joint Independent Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the Commissioner.

APPENDIX 7 The Treasury Management role of the section 151 officers

The S151 (responsible) officers*

- recommending clauses, 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
- recommending the appointment of external service providers.

* Under Section 7.5 of the Financial Regulations, the Police & Crime Commissioner has delegated responsibility for Treasury Management to the Police & Crime Commissioner's CFO in liaison with Chief Constable's CFO.