NORTHAMPTONSHIRE POLICE, FIRE AND CRIME COMMISSIONER

1st April 2019

Treasury Management Strategy Statement 2019-20

Including Minimum Revenue Provision Policy Statement

1. Introduction

Background

Treasury management is defined as:

The management of the Police, Fire and Crime Commissioners (PFCC) 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.

The PFCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PFCC's low risk appetite, providing adequate liquidity initially before considering investment return.

We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of sometimes extreme volatility and economic forecasts abound with uncertainty. As a consequence, the PFCC is not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. Therefore, we need to look at the product not the return on investment.

Statutory requirements

The 'Code of Treasury Management' published by CIPFA, and recommended by the Home Office, has been adopted by the Office of the PFCC.

In addition, the Department for Communities and Local Government (DCLG) issued revised guidance on Local Authority investments in March 2010 that requires the PFCC to approve an investment strategy before the start of each financial year.

This report fulfils the PFCC's legal obligations under the Local Government Act 2003 to have regard to both the CIPFA Code and DCLG guidance.

The Treasury Management Strategy is approved annually to run from 1st April to the following 31st March.

The Local Government Act 2003 included capital regulations that applied from 1st April 2004. These regulations allow the PFCC freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.

Specialist Advice

The PFCC engages the services of specialists for investment/borrowing advice, updates on economic factors and credit ratings. This service is currently provided by Link Asset Services and is referred to throughout this document.

2. Treasury Management Strategy

The successful identification, monitoring and control risk is central to the PFCC's Treasury Management Strategy

Uncertainty in the financial markets is likely to continue during 2019/20 as the UK exits the European Union, with no certainty around the exit arrangement and economic forecast.

The core aim of the Treasury Management Strategy is to generate additional income for the PFCC but by balancing risk against return. The avoidance of risk to the principal cash amounts takes precedence over maximising returns.

Managing daily cash balances and investing surpluses

In order that the PFCC can maximise income earned from investments, the target for the uninvested overnight balances in our current accounts is a maximum of £15k.

At any one time, the PFCC has between £5m and £36m (depending on the cash flow of both revenue and capital financing) available to invest. This represents income received in advance of expenditure plus balances and reserves.

Currently most of the PFCC's surplus cash is invested in short term unsecured bank deposits and money market funds.

In order to minimise exposure to credit risk, a minimum credit quality of counterparties available for investment is set and detailed in Appendix 2.

Credit Ratings of current institutions

These ratings have been provided by Link Asset Services and reviewed to assess the security of the PFCC's cash reserves and are as follows;

Bank/ Building Society	Current Rating
Royal Bank of Scotland PLC	F1 / A-2 / P-2
Santander UK PLC	A/ A/ Aa3
Barclays Bank PLC	A+/ A/ A2
Lloyds Bank PLC	F1 / A-2 / P-2

Investment of Principal Sums

No investments will be made for more than 2 years.

3. Borrowing

The main objective when borrowing funds is strike a balance between securing low interest costs and achieving certainty of those costs over the period for which the funds are required.

The strategy continues to address the key issues of affordability. Short-term interest rates are currently lower than long term rates so it is likely to be more effective in the short-term to either use internal resources, or to borrow short-term loans instead.

Borrowing internally enables the PFCC to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk. The benefits of internal versus external borrowing will continue to be monitored.

In addition, the PFCC may borrow short term loans to cover unplanned cash flow shortages.

The recommended sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB)
- UK Local Authorities
- Any other bank or building society authorised to operate in the UK

Whilst the PFCC has previously raised all of its long term borrowing from the PWLB other options will be explored with Link Asset Services to ensure that the most favourable rates are secured.

Short term and variable rate loans can leave the PFCC exposed to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the Treasury Management Indicators.

The PFCC's policy on borrowing in advance of need and debt rescheduling is included within appendix 2.

Current Portfolio Position

The PFCC's borrowing portfolio position at 1st April 2019 is estimated to be:

			£'000	£'000	Average % rate
Fixed rate funding:	-	PWLB	£1,300		**4.79%**
Variable rate funding:	-	PWLB	£0		
Other long term liabilities:			£0		
Gross Debt				£1,300	**4.79%**

The PFCC's borrowing requirement is as follows**:**

Borrowing	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Probable	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	1,300	1,300	10,961	19,549	25,152	31,854
New Borrowing	-	9,661	8,588	5,603	6,702	5,535
Repayment of Debt	-	-	-	-	-	-
Total Borrowing Requirement	**1,300**	**10,961**	**19,549**	**25,152**	**31,854**	**37,389**

Affordable and Authorised Limits

It is a statutory duty under Section 3 of the Act and supporting regulations, for the PFCC 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 PFCC Council Tax is 'acceptable'.

The Authorised Limit is to be set taking account of the Affordable Limit, on a rolling basis.

Details of the Authorised Limit and how it has been calculated for our MTFP are detailed below:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Probable	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Authorised Limit*	12,400	12,000	20,600	26,200	32,900	38,400
Interest Payable on Variable Rate Borrowing	50	50	50	50	50	50
Interest Payable on Fixed Rate Borrowing	620	600	1,030	1,310	1,645	1,920

*The Authorised Limit is based on the capital borrowing need and includes £1m headroom, for short term borrowing (cash flow) needs.
The calculation of the full indicators is contained within Appendix 4.

The Authorised Limit for external debt sets the maximum level of external borrowing that the PFCC 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 PFCC's expected maximum borrowing need with additional scope for unexpected cashflow. The limit also provides scope for the PFCC to borrow in advance of need.

The Affordable Borrowing Limit is made up of the PFCC's 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.

Maturity Structure of Debt

The Prudential Code recommends that the PFCC sets upper and lower limits for the maturity structure of its fixed rate borrowing:

	Upper Limit	Lower Limit	Actual
Under 12 months	33%	0%	0%
12 months and within 2 years	33%	0%	0%
2 years and within 5 years	33%	0%	0%
5 years and within 10 years	66%	0%	54%
10 years and above	100%	0%	46%

The actual values will move as fixed maturity dates draw nearer with each advancing year.

4. The Economy

The banking sector is expected to continue to show signs of instability alongside the wider economy and as Brexit continues. In this context investments outside of the 'core list' are only advisable where the rating, insight and advice shows the investment to be more favourable, balancing risk and return. This aligns to the PFCC's stated aim of protecting the principal (cash) amount, by ensuring creditworthiness over returns.

Funds are placed with institutions based on (a) Available Headroom and (b) Rate of Return – this is a daily decision-making process. A balance is struck between the desired level of return and the need to provide liquid funds to meet the PFCC's obligations i.e. supplier payments, payroll costs and tax liabilities.

Continued monitoring of the ratings agencies' assessment of institutions takes place and is reported to JIAC throughout the year via the "Treasury Management Performance" report.

The Bank of England raised the base interest rate from 0.5% to 0.75% in July 2018 with the future outlook for further increases over the MTFP. However, the investment income budget has been lowered to £24k for 2019/20 as this is deemed a more achievable target. Investment returns and the proposed budget for 2019/20 are detailed below:

Financial Year	Interest Income	Budget	Note
2016/17	71	156	Actual
2017/18	29	69	Actual
2018/19	23	59	Actual
2019/20		24	Proposed

Given the continued uncertainty in the economy a full review of the Treasury Management Strategy will be undertaken during 2019/20 to review whether there are other investment and borrowing options available.

APPENDIX 1

Minimum Revenue Provision Policy Statement 2019/20

The PFCC implemented the Minimum Revenue Provision (MRP) guidance, and will assess their MRP for 2019/20 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 18 of the MRP for 2019/20 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 that is funded by new borrowing 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 PFCC. However, the PFCC 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 PFCC 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 - Specified and Non-Specified Investments

Specified Investments

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	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	**£36m ***	**364 days**
Contracted Bank Group Short Term Interest Bearing Account (SIBA)	See note 1 & 2	In-house	**£8m**	**364 days**
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 £36m 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 ACO Finance & 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 PFCC to determine the suggested duration for investments.The PFCC will therefore use counterparties within the following durational bands;

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

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

Note 2

The PFCC 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 PFCC 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 PFCC's own bank could be in excess of £36m (current cash flow assumes the busiest transactional day would be £6m Revenue Grant, £17m 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 PFCC's banking provider and is unlimited. 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 Strategy.

Therefore, it has been determined that where the PFCC 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 PFCC, that the PFCC 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 £36m on any given day*, but this will be subject to daily review and scrutiny by the investment team. This will give the PFCC 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 ACO Finance & Resources approves such a decision.

Deposits across the PFCC's Banking Group (the three NatWest PFCC 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 PFCC Section 151 officer. 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

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

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

Countries meeting the standard for investment (above B and an appropriate country as at 1.12.18)

Country	**S&P Rating**	**Moody's rating**	**Fitch Rating**
Australia	AAA	Aaa	AAA
Austria	AA+	Aaa	AAA
Belgium	AA	Aa3	AA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Estonia	AA-	A1	A+
Finland	AAA	Aaa	AAA
France	AA+	Aa1	AAA
Germany	AAA	Aaa	AAA
Hong Kong	AAA	Aa1	AA+
Luxembourg	AAA	Aaa	AAA
Netherlands	AAA	Aaa	AAA
New Zealand	AA	Aaa	AA
Norway	AAA	Aaa	AAA
Poland	A-	A2	A-
Saudi Arabia	AA-	Aa3	AA-
Singapore	AAA	Aaa	AAA
Slovakia	A	A2	A+
Sweden	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
Taiwan	AA-	Aa3	A+
United Kingdom	AAA	Aaa	AAA
United States of America	AA+	Aaa	AA+

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 3

Policy on borrowing in advance of need

The PFCC will not borrow more than or in advance of need 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 PFCC can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the PFCC 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

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
- 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 £1.3m which reduces the opportunity for rescheduling.

APPENDIX 4

PRUDENTIAL INDICATORS Extract from budget setting report	2018/19 Probable	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	**9,250**	**13,425**	**10,363**	**7,093**	**8,192**	**7,025**
Net borrowing requirement						
brought forward 1 April	1,300	1,300	10,961	19,549	25,152	31,854
Repayment of Debt	0	0	0	0	0	0
Expected Internal Borrowing	2,340	0	0	0	0	0
In year borrowing requirement	0	9,661	8,588	5,603	6,702	5,535
Carried forward external debt at 31 March	**1,300**	**10,961**	**19,549**	**25,152**	**31,854**	**37,389**
Capital Financing Requirement as at 31 March						
Non – HRA	1,266	555	1,609	2,683	3,299	3,793
Change in CFR (Non – HRA)	968	(711)	1,054	1,074	616	494
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in precept per annum*	4.15	(2.90)	4.22	4.23	2.38	1.88

TREASURY MANAGEMENT INDICATORS	2018/19 Probable	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -						
borrowing	12,400	12,000	20,600	26,200	32,900	38,400
other long term liabilities	0	0	0	0	0	0
TOTAL	**12,400**	**12,000**	**20,600**	**26,200**	**32,900**	**38,400**
Operational Boundary for external debt -						
borrowing	10,000	11,500	20,100	25,700	32,400	37,900
other long term liabilities	0	0				
TOTAL	**10,000**	**11,500**	**20,100**	**25,700**	**32,400**	**37,900**
Actual estimated external debt	1,300	10,961	19,549	25,152	31,854	37,389
Capital Financing Requirement as at 31 March						
Capital expenditure	1,266	555	1,609	2,683	3,299	3,793
Upper limit for fixed interest rate exposure						
Net interest re fixed rate borrowing / investments	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Upper limit for variable rate exposure						
expressed as either:-						
Net interest re variable rate borrowing / investments	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Upper limit for total principal sums invested for over 364 days						
(per maturity date)	£1m	£1m	£1m	£1m	£1m	£1m