# TREASURY MANAGEMENT STRATEGY

## REPORT OF ASSISTANT TREASURER

## PURPOSE OF REPORT

1. To provide the PCC with a summary of treasury management activity to date during 2015/6, and to seek approval of the following documents in relation to 2016/17, for recommendation to the Police and Crime Commissioner. The documents below have been updated to reflect the proposed budget.

   - Treasury Management Activity 2015/16 (Appendix A)
   - Treasury Management Policy Statement (Appendix B)
   - Treasury Management Strategy Statement (Appendix C)
   - Prudential Indicators (Appendix D)
   - Investment Strategy (Appendix E)
   - Minimum Revenue Provision (MRP) calculation policy (Appendix F)
   - Treasury Management Practices (Appendix G)

## KEY INFORMATION

2. Treasury management activity to date during 2015/16 is attached for information at Appendix A.

3. The proposed Treasury Management Policy Statement for 2016/17 is shown at Appendix B and covers the definition of treasury management activities and the key principles underpinning all treasury management activities. The definition includes the investment of surplus cash and the sourcing of external borrowing. The PCC's average daily cash surplus, projected to be around £100.2m, is made up of the amounts held in balances, reserves and provisions, usable capital receipts, unapplied capital grants and temporary cash flow surpluses.

4. The proposed treasury management strategy statement for 2016/17 is attached at Appendix C. This continues to focus on economy and stability, to achieve the lowest net interest rate costs recognising the risk management implications, and protect the annual revenue budget from short term fluctuations on interest rates.

5. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities provides the formal guidance for the manner in which capital spending plans are to be considered and approved, and this strategy complies with the recommendations contained within the code.

6. Prudential Indicators in respect of capital expenditure, external debt and treasury management activity are included at Appendix D. This includes the Authorised Limit for external borrowing required under section 3(1) of the Local Government Act 2003.

7. Guidance from the Department of Communities and Local Government (DCLG) requires the PCC to set an annual investment strategy. The proposed strategy is set out at Appendix E and has as its primary principle the security of investments.

8. The criterion for choosing counterparties provides a sound approach to investment in “normal” market circumstances. Whilst the PCC is asked to approve this base criteria, under exceptional current market conditions the PCC’s Treasurer will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

9. The DCLG has also issued statutory guidance setting out options for the way MRP may be calculated. Further background to the guidance and the policy is set out at Appendix F.

10. The latest guidance from CIPFA recommends that detailed scrutiny of Treasury Management proposals is undertaken prior to approval, with a view to informing and expediting the formal consideration by the PCC. Independent Audit Committee Members considered the strategy on 8 April 2016, when they recommended the adoption of the strategy by the PCC.

11. One of the cornerstones of effective treasury management is the preparation and implementation of suitable Treasury Management Practices (TMPs), which set out the manner in which the organisation will seek to achieve the treasury management policies and objectives and prescribe how it will manage and control those activities. A summary of the Treasury Management Practices relevant to the PCC is attached at Appendix G. Detailed schedules have been prepared which specify the systems and routines that are employed and the records that are maintained.

12. Attention is drawn to the fact that under the Police and Social Reform Act 2011 the PCC continues to have responsibility for the Treasury Management activity of the West Yorkshire Police Group.

13. There are no major changes to the content of the strategy this year, other than the ability to hedge against foreign currency fluctuations. This was approved mid-year by the PCC, after consideration by the joint independent audit committee.

**Affordability:**

14. Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 to produce a balanced budget. In particular, Section 33 requires the PCC, as a Local Authority, to calculate his budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

This means that capital expenditure must be limited to a level where increases in charges to revenue from additional external interest and running costs are affordable within the projected income levels for the foreseeable future.

15. Budget Assumptions

The budget estimates associated with treasury management activity are set out below:

| | **Revised Estimate 2015/16 £000** | **Estimate 2016/17 £000** | **Estimate 2017/18 £000** |
|---|---|---|---|
| **Interest Payable** | 3,888 | 3,899 | 3,938 |
| **Debt Management Expenses** | 7 | 7 | 7 |
| **Interest Receivable** | (561) | (727) | (917) |
| **Total** | **3,333** | **3,179** | **3,027** |

**Risks/Legal Opinion:**

16. Treasury management activities expose the PCC to a variety of financial risks, the key risks being credit risk, liquidity risk, re-financing risk and market risk. Overall procedures for managing risk include adopting the requirements of CIPFA's Code of Practice (including an approved Treasury Strategy and Investment Strategy), and approving annually in advance prudential indicators for the following three years.

17. The treasury service itself is provided to the PCC by Wakefield MDC through a service level agreement. Additionally, under the service level agreement with Wakefield MDC, the PCC uses Capita Treasury Services (formerly known as Sector) as his external treasury management advisers. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies.

18. It must be recognised that responsibility for treasury management decisions remains with the organisation at all times which will ensure that undue reliance is not placed upon external service providers. Whilst the advisers provide support to the internal treasury function under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the PCC. The PCC will ensure that the terms of the advisor's appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

**SUPPORTING DOCUMENTATION**

Appendix A – Treasury Management Activity 2013/14

Appendix B – Treasury Management Policy Statement 2016/7

Appendix C – Treasury Management Strategy Statement 2016/7

Appendix D – Prudential Indicators

Appendix E – Investment Strategy

Appendix F – MRP Policy

Appendix G – Treasury Management Practices

**BACKGROUND PAPERS**

CIPFA's Treasury Management in the Public Services: Code of Practice 2001 as revised November 2009 & November 2011

CIPFA's Prudential Code for Capital Finance in Local Authorities 2003 as revised November 2009 & November 2011

Local Government Act 2003

DCLG Investment Guidance

DCLG Minimum Revenue Provision Guidance

Local Authorities (Capital Finance and Accounting Regulations) 2003

PWLB Circulars

# TREASURY MANAGEMENT ACTIVITY 2015/16

1. The strategy which was approved for 2015/16 is set out below:

## Factors in Formulation of the Strategy

- The PCC had projected average daily surplus funds of £97.7m **(The revised figure as at 31 January is £111.6m)**

- It was anticipated that no long term borrowing would be undertaken during 2015/16. This was due to the fact that internal savings were supporting the cash flow, and utilised to support the capital programme more cheaply than borrowing. Short term borrowing was anticipated to be at 0.4% **(No long term external borrowing is anticipated for 2016/7. Short term borrowing rates have averaged at 0.41%).**

- Investments were estimated to earn 0.50%. **(The revised figure is projected to be 0.51%)**

- At the time of the budget the PCC was expected to be £8.6m underborrowed at the end of 2015/16 (Latest estimate £13.1m). Due to a healthy cash flow position, and the current poor economic climate, it was not considered prudent to undertake external borrowing.

## Objectives of the Strategy

- ECONOMY: to achieve the lowest net interest rate costs, whilst recognising the risk management implications

- STABILITY: to prevent the need for excessive borrowing in future years when rates may be unfavourable and to protect the annual revenue budget from short term fluctuations in interest rates.

## The Strategy

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.

- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.

- To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

- To observe the prudential indicators for maturity profile.

- To maintain a spread of maturity dates for investments.

2. There was no expected borrowing requirement in 2015/16, and the year end under borrowing position was estimated at £8.6m.

3. As at 31 March 2015 the capital financing requirement (underlying need for long term borrowing) stood at £206.864m. Excluding the PFI liability, the CFR relating to other capital expenditure was £105,952, in comparison with long term external debt of £96.779m. Capital expenditure of £1.683m was slipped from the 2014/15 programme into 2015/16, and the programme was subsequently reviewed and reprofiled. Coupled with increases in direct revenue financing, the borrowing requirement for 2015/16 now stands at £4.170m.

4. No borrowing has been undertaken in 2015/16 to date and interest rate savings of £329,000 are likely to arise as a result (Based on the end of February PWLB rates). Additional savings are predicted of £410,000 in relation to the minimum revenue provision (MRP) due to increased direct revenue financing.

5. The PCC's long term external borrowing is estimated to increase slightly £96.8m at 31 March 2015 to £97.8m at 31 March 2016. No new borrowing has been taken, but there has been a slight increase in temporary borrowing throughout the year.

6. The debt portfolio now consists of fixed rate loans ranging from 0.47% to 9.5% and one variable rate loan currently at 0.69% (Average 4.11%), and has a likely current year cost for interest payable of £3.887m.

7. The original estimate for interest receivable (for period and overnight investment of surplus funds) was £0.319m; the revised estimate being £0.561m and this is mainly due to the additional interest received on balances due to the underspend brought forward from 2014/15.

8. As at 22 January 2015 a total of 123 investments amounting to £532.2m had been made with approved institutions, for periods ranging from one days (money market funds) to 550 days and interest rates ranging from 0.25% to 0.75%.

# TREASURY MANAGEMENT POLICY STATEMENT

1. The PCC defines his treasury management activities as:

   "The management of the PCC's and Chief Constable's cash flows, 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".

2. The key principles underpinning treasury management activities are as follows:

2.1 The PCC, along with his Treasurer, retains the responsibility for Treasury Management activity relating to the whole of the West Yorkshire Police Group.

2.2 The PCC regards the successful identification, monitoring and control of risk to be the prime criterion by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

2.3 The PCC acknowledges that effective treasury management will provide support towards the achievement of group business and service objectives. He is therefore committed to the principles of achieving best value in treasury management, and employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The PCC's high level policies for borrowing and investments are:

Borrowing

- If it was felt that there is a significant risk of a sharp fall in long and short term rates, then long term borrowing 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 then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Investments

- The PCC's investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of investments on time first, with ensuring adequate liquidity second and investment return third. In the current economic climate there is over-riding risk consideration, that of counterparty security. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

  The PCC will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

# POLICE AND CRIME COMMISSIONER FOR WEST YORKSHIRE

## TREASURY MANAGEMENT STRATEGY STATEMENT

## 2016/17

**1. Approved Activities of Treasury Management.**

**2. Formulation of Treasury Management Strategy.**

**3. Proposed Strategy.**

## 1. APPROVED ACTIVITIES OF TREASURY MANAGEMENT

Treasury Management encompasses the following:

a) Raising loans to fund capital payments, to refinance maturing debt and to cover any temporary short-term cash flow deficits.

b) Arranging other financial instruments and credit arrangements.

c) Debt restructuring to improve portfolio efficiency.

d) Investment of the PCC's long term and short term cash surpluses.

e) Managing the PCC's cash flow.

f) Arranging leasing finance (excluding land and buildings) on behalf of the PCC.

g) Dealing with financial institutions and brokers.

## 2. FORMULATION OF TREASURY MANAGEMENT STRATEGY

This involves a consideration of the following:

a) General objectives when financing capital expenditure.

    i) To minimise the net revenue costs of debt.

    ii) To optimise the use of borrowing, usable capital receipts, capital grants, operating leases and revenue resources.

    iii) To comply with all statutory controls and professional guidelines relating to treasury management.

b) The prospects for interest rates - General commentary

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK, with the governor of the Bank of England advocating the following:

- Quarter-on-quarter GDP growth needs to be above 0.6%. This condition was met in quarter 2 of 2015, but not in quarter 3. It is unlikely that the target will be achieved in Q4.
- A 2% target for core inflation (stripping out most of the effect of decreases in oil prices). This measure was on a steadily decreasing trend since mid-2014 until November 2015, at 1.2%. December 2015 saw a slight increase to 1.4%.
- Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflation.

That said, the UK GDP growth rates were 2.2% in 2013 and 2.9% in 2014 and were the strongest growth rates of any G7 country; but the 2015 growth rate looks likely to disappoint previous forecasts and come in at about 2%.The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. 2015 has seen wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the report itself were for an even slower rate of increase.

Confidence is another big issue to factor when forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also result in a slowdown in increases in employment. However this could well feed through into an increase in consumer expenditure and demand in the UK economy. Another consideration is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

Economic forecasting remains difficult with so many external influences weighing on the UK. There is much volatility in rates and bond yields and market expectations in January 2016 for the first Bank Rate increase are currently around quarter 1, 2017.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or US rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the US funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

ii) Current interest rates and forecasts are as follows:

| | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank rate** | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| **5yr PWLB rate** | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% |
| **10yr PWLB rate** | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% |
| **25yr PWLB rate** | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | 4.10% |
| **50yr PWLB rate** | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% | 4.00% |

Table provided by Capita Asset Services.

Please note that the current PWLB rates and forecast shown above include the certainty rate reduction of 20 basis points, effective from November 2012.

c) Borrowing and Debt Strategy

i) The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the PCC will take a cautious approach to its treasury strategy:

- If it was felt that there is a significant risk of a sharp fall in long and short term rates, then long term borrowing 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 then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

- The PCC’s Treasurer, under delegated powers, will take the most appropriate form of borrowing, taking into account the risks identified in the forecast above. This may include borrowing in advance of future years requirements to the extent allowed within CLG guidance.

ii) Where borrowing is taken in advance of need:

- Borrowing will only be taken up to 1 year in advance of expenditure

- Excess funds, as a result of taking borrowing in advance of need, will be invested with high quality counterparties as set out in the annual investment strategy

iii) Based on the approved capital programme, the estimated borrowing requirement for 2016/17 is £0.65m. Although there has been under borrowing in previous years, direct revenue financing has been utilised, and as such is is unlikely that prudential borrowing will not be necessary to fund the 2016/17 capital programme. It is anticipated that borrowing will be postponed for as long as is practicable under the current economic conditions. Borrowing may be required, however, dependent upon the cashflow. The interest on this borrowing will be funded via the capital financing reserve.

iv) Maturity Profile

- It is considered good practice to have a reasonably even spread of maturity dates for outstanding loans, thereby avoiding the need to replace a large proportion of total borrowings in a single year.

- The PCC's current policy is to observe the Prudential Indicators for maturity profile.

- The maturity limit will continue to be reviewed as the PCC strives to achieve the best practice requirements of the Prudential Code.

d) Investment Strategy

i) The PCC’s investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of its investments on time first, with ensuring adequate liquidity second and investment return third. In the economic climate outlined above, there is over-riding risk consideration, that of counterparty security. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

ii) Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current Bank Rate of 0.5% remaining flat but with a rise predicted in quarter one of 2017. The PCC’s investment decisions are based on comparisons between the rises priced into market rates against the PCC’s and advisors own forecasts.

iii) There continue to be operational difficulties relating to the current eurozone crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

iv) The PCC will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

v) The criteria for choosing counterparties set out in Appendix E provide a sound approach to investment in “normal” market circumstances. Whilst the PCC is asked to approve this base criteria, under the exceptional current market conditions the PCC’s Treasurer will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

vi) Examples of these restrictions would be use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local PCC deposits), Money Market Funds, and guaranteed deposit facilities. The investment criteria reflect these facilities.

vii) With the PCC having average estimated surplus funds of £89.3m it is likely that a mix of all the options available to the PCC will be undertaken. Interest rates will be monitored on an ongoing basis and investment decisions taken accordingly.

viii) All investments will be made in accordance with the PCC's investment policies and prevailing legislation and regulations. The PCC’s Proposed Investment Strategy is attached at Appendix E.

e) Risk Benchmarking

i) Yield benchmarks are currently widely used to assess investments' performance. The application of liquidity and security benchmarking are more subjective in nature and the application of indicators and benchmarks have been developed by officers in conjunction with the PCC's treasury advisors to ensure the system is robust and appropriate.

ii) These benchmarks are simple preferred restrictions (not strict limits) and so the actual position may from time to time be over these benchmarks, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend positions, and feedback from the monitoring analysis may amend the day to day operational strategy. For instance if the counterparty risk position worsens any new investments would be made with stronger counterparties to compensate.

iii) The broad benchmark indicators which officers will monitor are:

**Security** - The PCC's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.03% historic risk of default when compared to the whole portfolio.

**Liquidity** – In respect of this area the PCC seeks to maintain:

- Bank overdraft - £0.1m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted Average Life benchmark is expected to be 150 days, with a maximum of 1 year.

**Yield** - Local measures of yield benchmarks are:

- Investments – Internal returns above the 1 Month LIBID rate

And in addition that the security benchmark for each individual year is:

| | **1 year** | **2 years** | **3 years** |
|---|---|---|---|
| Maximum | 0.04% | 0.10% | 0.20% |

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

f) Cash flow

i) Estimates are made of the PCC's cash flow on an annual, weekly and daily basis.

ii) Daily cash flows will be monitored to achieve minimum utilisation of bank overdraft facilities.

g) Leasing

i) With the borrowing freedoms introduced in the new Prudential Framework the future utilisation of leasing, as a way of acquiring assets, will be reviewed to ensure that the most economical option is chosen.

h) Budgetary Constraints

i) The PCC's net interest budget is made up of interest paid on external borrowing offset by income on interest earned on investments. Any treasury management decisions must therefore take into account the impact on the net position.

## 3. PROPOSED STRATEGY

The following Treasury Management strategy is proposed for 2016/17.

i) To undertake approved prudential borrowing in order to support the capital programme, together with maturing loans. Borrowing will only be undertaken where absolutely necessary, or if there is likely to be a sharp increase in interest rates.

iii) To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

iv) To manage the PCC's debt maturity profile in accordance with the Prudential Indicators.

v) To maintain a spread of maturity dates for investments.

**Factors in Formulation of the Strategy**

- The PCC has projected average daily surplus funds of £90.9m.
- New borrowing is not predicted, however, should the need arise the cost of borrowing is projected to be 3.2% for long term funds and 0.45% for short term. Investments are estimated to earn 0.56%.
- Due to the minimum revenue provision exceeding the additional requirement for Prudential borrowing, it is not anticipated that the PCC will need to borrow during 2016/17 as a result of the capital programme. It is anticipated that the PCC will be underborrowed by £0.64m at the end of the 2016/17 financial year. It is unlikely that this borrowing will be taken during 2016/17.

## Objectives of the Strategy

- ECONOMY: to achieve the lowest net interest rate costs, whilst recognising the risk management implications, and consistent with
- STABILITY: to prevent the need for excessive borrowing in future years when rates may be unfavourable, and to protect the annual revenue budget from short term fluctuations in interest rates.

## The Strategy

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.
- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.
- To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.
- To observe the prudential indicators for maturity profile.
- To maintain a spread of maturity dates for investments.

# PRUDENTIAL INDICATORS
# 2015/16 – 2019/20

## Capital Expenditure

The estimated capital outturn for 2015/16 and the estimates of capital expenditure included within the capital forecast are:

| 2015/16 £000 Estimate | 2016/17 £000 Estimate | 2017/18 £000 Estimate | 2018/19 £000 Estimate | 2019/20 £000 Estimate |
|---|---|---|---|---|
| 20,981 | 23,397 | 21,126 | 17,792 | 15,832 |

Please note that the figures above do not include the PFI scheme.

## Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of capital financing costs to net revenue stream for the current and future years.

| 2015/16 % Estimate | 2016/17 % Estimate | 2017/18 % Estimate | 2018/19 % Estimate | 2019/20 % Estimate |
|---|---|---|---|---|
| 1.8000 | 1.724 | 1.659 | 1.701 | 1.964 |

## Capital Financing Requirement

| | 2015/16 £000 Estimate | 2016/17 £000 Estimate | 2017/18 £000 Estimate | 2018/19 £000 Estimate |
|---|---|---|---|---|
| General | 101,984 | 98,110 | 94,326 | 90,624 |
| PFI | 99,049 | 96,973 | 97,797 | 92,610 |
| **Total:** | **201,033** | **195,083** | **189,123** | **183,234** |

The CFR is 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 PCC’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

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

In accordance with best professional practice, the PCC does not associate borrowing with particular items or types of expenditure.

The PCC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCC has, at any point in time, a number of cashflows both positive and negative, and manages his treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy and practices.

In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the PCC and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the PCC's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years"

The PCC's Treasurer reports that the PCC has had no difficulty meeting this requirement in 2015/16.

The PCCs external debt is not currently above his borrowing need or CFR, but based on the budgeted financing of the capital programme the situation is likely to arise in 2017/18.

This position will arise as a result of external borrowing taken out previously to support historical capital programmes, and subsequent policy changes to the programme have seen the CFR begin to fall. Ideally, the PCC would repay external debt in line with the fall in CFR, however, given the current economic climate, and particularly low interest rates, the cost of re-scheduling historical debt is significant at the moment. The option of debt repayment is continually monitored by the Treasurer in conjunction with our treasury advisers, with a view to repaying debt when it is cost-effective to do so.

**Debt and the CFR**

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates activities within well defined limits. One of these is that the PCC needs to ensure that net debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates for the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

| | 2015/16 £000 Estimate | 2016/17 £000 Estimate | 2017/18 £000 Estimate | 2018/19 £000 Estimate |
|---|---|---|---|---|
| Gross Market and PWLB Debt | 87,414 | 87,062 | 86,674 | 87,074 |
| Temporary Borrowing | 10,400 | 10,400 | 10,400 | 10,400 |
| Other Long term Liabilities (PFI) | 99,049 | 96,973 | 94,797 | 92,610 |
| **Sub-Total:** | **196,863** | **194,438** | **191,871** | **190,084** |
| Less investments | (89,250) | (77,635) | (56,163) | (35,398) |
| **Estimated Net Debt:** | **107,613** | **116,803** | **135,708** | **154,686** |
| CFR – Capital Programme | 101,984 | 98,110 | 94,326 | 90,624 |
| CFR – PFI | 99,049 | 96,973 | 94,797 | 92,610 |
| **Total CFR** | **201,033** | **195,083** | **189,123** | **183,234** |
| **Gross over/ (under) borrowing** | **(4,170)** | **(648)** | **2,748** | **6,850** |
| **Net over/ (under) borrowing** | **(93,420)** | **(78,280)** | **(53,415)** | **(28,548)** |

**Authorised Limit for External Debt**

It is recommended that the PCC authorises the following limits for his total external debt gross of investments for the next three financial years, and agrees the revised reduced limit for the current year.

| | 2015/16 £000 Estimate | 2016/17 £000 Estimate | 2017/18 £000 Estimate | 2018/19 £000 Estimate |
|---|---|---|---|---|
| Borrowing | 132,000 | 128,000 | 123,000 | 119,000 |
| Other long term liabilities (PFI) | 110,000 | 106,700 | 104,500 | 102,300 |
| **Total:** | **242,000** | **234,700** | **227,500** | **221,300** |

The limits separately identify borrowing and other long term liabilities such as finance leases. Other long term liabilities,' relate mainly to the PFI Scheme. The figures above are early indications of the likely liability taken from the PFI financial model. The model may alter in subsequent years as further progress is made and this will have a consequential impact on the indicator.

The PCC is asked to approve these limits and to give consent to the Chief Constable, in consultation with the PCC's Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the PCC. Any such change made will be reported to the PCC at the earliest opportunity.

The PCC's Treasurer and Force Assistant Chief Officer report that these authorised limits are consistent with the PCC's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The PCC's Treasurer and Force Assistant Chief Officer confirm that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes have been taken into account.

The PCC is asked to note that the authorised limit determined for 2016/17 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

## Operational Boundary for External Debt

The PCC is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the PCC's Treasurer and Force Assistant Chief Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The operational boundary represents a key management tool for in year monitoring by the PCC's Treasurer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The PCC is asked to delegate authority to the Chief Constable, in consultation with the PCC's Treasurer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the PCC at the earliest opportunity.

| | **2015/16 £000 Estimate** | **2016/17 £000 Estimate** | **2017/18 £000 Estimate** | **2018/19 £000 Estimate** |
|---|---|---|---|---|
| Borrowing | 106,000 | 102,000 | 99,000 | 107,000 |
| Other long term liabilities (PFI) | 100,000 | 97,000 | 95,000 | 93,000 |
| **Total:** | 206,000 | 199,000 | 194,000 | 200,000 |

## Impact of Capital Expenditure Proposals on Precept

The estimate of the incremental impact of capital investment decisions proposed in 2015/16 and the forecast for 2016/17 to 2019/20 over and above capital investment decisions that have previously been taken by the PCC are:

| | **2015/16 £ p Estimate** | **2016/17 £ p Estimate** | **2017/18 £ p Estimate** | **2018/19 £ p Estimate** |
|---|---|---|---|---|
| Impact on Band D Council Tax (excluding PFI) | 14.66 | 12.22 | 1.62 | 2.87 |

**Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services**

The PCC has adopted this code as shown in Financial Regulation 3002.

**Interest Rate Exposures**

The PCC must set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. The indicators relate to both fixed interest rates and variable interest rates.

(i) Upper Limit on Fixed Interest Rates

The PCC's upper limit for fixed interest exposure for the period 2015/16 – 2016/17 is **£5.0m p.a.**, based on the anticipated fixed interest payments net of any anticipated fixed income over the period.

(ii) Upper Limit on Variable Interest Rate Exposures

The PCC's upper limit for variable interest exposure for the period 2015/16 – 2016/17 is **£2.0m p.a**., based on the anticipated variable interest payments net of any anticipated variable income over the period.

**Maturity Structure of Borrowing**

The PCC must set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. The indicator identifies the amount of projected borrowing that is fixed rate and maturing in each period expressed as a percentage of total projected fixed rate borrowing. The percentages are shown below over the specified periods.

| | **Upper Limit %** | **Lower Limit %** |
|---|---|---|
| Under 12 Months | 30 | 0 |
| 12 Months and within 24 Months | 40 | 0 |
| 24 Months and within 5 Years | 60 | 0 |
| 5 Years and within 10 Years | 80 | 0 |
| 10 Years and within 20 Years | 100 | 0 |
| 20 years and within 30 Years | 100 | 0 |
| 30 Years and within 40 Years | 100 | 0 |
| 40 Years and within 50 Years | 100 | 0 |
| 50 Years and above | 100 | 0 |

## Total Principal Sums invested for periods longer than 364 days

If the PCC invests or plans to invest for longer than 364 days he has to set an upper limit for each financial year for the maturity of such investments.

| | 2015/16<br>£m | 2016/17<br>£m | 2017/18<br>£m |
|---|---|---|---|
| Total Principal Sum invested to final maturities beyond the period end | 15 | 15 | 15 |

**Appendix E**

**West Yorkshire Police and Crime Commissioner**

**Proposed Investment Strategy**

## 1. Overview

1.1 The Secretary of State has issued revised guidance, in accordance with powers contained in the Local Government Act 2003, in respect of investments and the Police and Crime PCC is required to have regard to this guidance.

1.2 The Secretary of State recommends that the Police and Crime PCC should approve the strategy before the start of the financial year. The strategy may be varied at any time during the year, again with the approval of the PCC.

1.3 The key requirements of the guidance are to set an annual investment strategy covering the identification and approval of the following:

- Strategy guidelines for decision-making
- Liquidity issues: The guidance recommends that priority should be given to security and liquidity. It is however appropriate to seek the highest rate of return consistent with the proper levels of security and liquidity.
- Specified investments policy
- Non-specified investments policy

1.4 The general policy is that the PCC should invest surplus funds prudently.

1.5 It is also recommended that the initial Strategy, when approved, should be made available to the public free of charge. This can be in print or on-line.

## 2. INVESTMENT STRATEGY 2016/17– 2019/20

### 2.1 Strategy Guidelines

The primary principle governing the PCC's investment criteria is the security of his investments, although the yield or return on the investment is also a key consideration. Secondary to the satisfaction of the primary principle the PCC will also ensure: -

- There is sufficient liquidity in his investments. For this purpose he will set out procedures for determining the maximum periods for which funds may prudently be committed
- He maintains a policy covering the categories of investment types he will invest in, and the criteria for choosing and monitoring counterparties and the adequacy of their security. This is set out below in the sections dealing with specified and non-specified investments.

- The PCC will allow hedging against foreign currency fluctuations for the purchase of specific assets, however, each individual hedge will be considered separately, at the time, by the PCC, and will comply with the provisions of the investment strategy. The use of foreign exchange derivatives will not be considered.

- For ethical reasons, the PCC will not consider investment in offshore tax havens, and this is set out in the counter party selection criteria below.

## 2.2 Investment Counterparty Selection Criteria

2.2.1 The PCC's Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to PCC as necessary. This criteria is separate to that which chooses Specified and Non-specified investments as it provides an overall pool of counterparties considered high quality which the PCC may use rather than defining what the investments are.

2.2.2 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

**Banks 1 - Good Credit Quality** – the PCC will only use banks which:

Are UK banks; and/or

Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA from 2 out of 3 agencies, provided the third is no lower than AA+

And have, **as a minimum**, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

Short Term – F1

Long Term – A

Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.

**Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland.** These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above**.**

**Banks 3** – **In addition the PCC will use**:

The PCC's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

**Building Societies** – the PCC will only use Building Societies which meet the ratings for banks outlined above

**Money Market Funds –** Long-term credit rating AAA

**UK Government** (the DMADF)

**A local authority, Police and Crime PCC, fire authority, parish authority or community authority**

2.2.3 For ethical reasons, the PCC will not invest in the following offshore jurisdictions:

- British Virgin Islands
- Panama
- Massey
- Seychelles
- Niue
- Samoa
- British Anguilla
- Nevada
- Hong Kong

2.2.4 A limit of £30m will be applied to the use of non-specified investments.

2.2.5 Country and Sector Considerations

Due care will be taken to consider the country, group and sector exposure of the PCC's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- No more than £10m will be placed with any non-UK country at any time;
- Limits of £10m will apply to Banking Groups.
- Sector limits will be monitored regularly for appropriateness.

2.2.6 Use of additional information other than credit ratings

Requirements under the Code of Practice now require the PCC to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

2.2.7 Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the PCC's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

| | Fitch (or equivalent) | | Money Limit | Time Limit |
|---|---|---|---|---|
| | **Short Term** | **Long Term** | | |
| Banks 1 | F1+ | AA | £10m | 3yrs |
| Banks 1 | F1+ | AA- | £5m | 3yrs |
| Banks 1 | F1 | A+ | £5m | 2yrs |
| Banks 1 | F1 | A | £10m | 364 days |
| Building Societies | F1 | A | £5m | 364 days |
| Other Institution Limits (Other Local Authorities) | - | - | £10m | 2yrs |
| Banks 2 – Part nationalised UK Banks | - | - | £5m | Up to 1 year while they continue to be part-nationalised or as for Banks 1 if they meet the minimum credit criteria |
| Banks 3 The PCC's own Banker | | | If it does not meet the minimum credit criteria for specified investments, to be kept within the Non-Specified limit. | If it does not meet the minimum credit criteria for specified investments, the monetary value to be kept to a minimum |
| MMFs (Money Market Funds) | - | AAA | £10m | 364 days |
| DMADF (Debt Management Account Deposit Facility) | - | - | Unlimited | 364 days |

Within any of the limits above the maximum amount to be invested in any one institution at any time is £10m (excluding own banker and DMADF).

The maximum total amount which can be invested in periods longer than 364 days is £15m (maximum of £10m in 2 to 3 year period).

### 2.3 Liquidity of Investments

2.3.1 In the normal course of the PCC's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

2.3.2 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the PCC's liquidity requirements are safeguarded. This will also be limited by the longer-term investments limits.

### 2.4 Specified Investments

2.4.1 An investment is a specified investment if:

- It is sterling denominated.
- It is not a long-term investment (i.e. due to be repaid within 12 months of the date on which the investment was made, or one which the PCC may require to be repaid within that period).
- The making of the investment is not defined as capital expenditure.
- The investment is made with a body or in an investment scheme of *'high credit quality'* or is made with any one of the following public sector bodies:

  - The United Kingdom Government.
  - A Local Authority in England and Wales or a similar body in Scotland or
  - Northern Ireland (including Police & Crime PCC and Fire Authorities).
  - A Parish Council or Community Council.

2.4.2 The following ratings (provided by the credit rating agencies) are the minimum the PCC will use to determine that a body has "high credit quality" as required by the CLG guidance. Investments will not be made below these levels except where allowed for elsewhere in the Investment Strategy:

| Agency | Long Term | Short Term |
|---|---|---|
| Fitch IBCA | AAA, AA+, AA, AA-, A+, A | F1+, F1 |
| Moody's | Aaa, Aa1, Aa2, Aa3, A1, A2 | P-1 |
| Standard & Poor's | AAA, AA+, AA, AA-, A+, A | A-1+, A-1 |

Determining the ratings at this level for the placing of investments means that the ratings would have to be reduced by at least two levels before causing concern.

The rating criterion uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the PCC's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the PCC's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the revised CIPFA Treasury Management Code of Practice.

The lowest common denominator will not apply to Sovereign ratings for non UK domiciled banks where the bank is rated AAA by two out of the three agencies and the third rating is no lower than AA+.

2.4.3 The list of specified investments for West Yorkshire Police PCC is as follows:

| **All less than 364 days** |
|---|
| **INSTITUTION / INSTRUMENT** |
| • The UK Government (including the Debt Management Office and UK Treasury Bills).<br>• A local Authority, police & crime PCC, fire authority, parish authority or community authority<br>• Pooled investment vehicles (such as money market funds) that have been awarded a high long term credit rating by a credit rating agency (AAA being the highest rating provided by credit rating agencies)<br>• A body that is considered of a high credit quality (such as Banks and Building Societies). |

2.4.4 It is acknowledged within the financial markets that a short-term credit rating determines an Institutions' ability and willingness to honour its obligations within a time horizon of less than 365 days and takes account of the banks liquidity. In order to allow more flexibility short-term investments can be made by reference to the short-term investment criteria only.

**2.5 Non-Specified Investments**

2.5.1 Non-specified Investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are below.

2.5.2 The PCC will review the categories of non–specified investments on an annual basis and amend the categories appropriately.

2.5.3 The current policy is that the PCC will utilise the same categories of institutions for both specified and non – specified investments. The only difference being:

- The timescale – non-specified investments are in most cases for more than 364 days.

2.5.4 The current list of non – specified investments is set out below:

- Part nationalised UK banks – where they do not meet the basic credit criteria.
- The PCC's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
- A local Authority, police and crime PCC, fire Authority, parish Council or community Council

2.5.5 Within the limits set out in paragraphs 2.2.6 and 2.5.4, excluding those for UK government, and the PCC's own banker, the maximum amount that may be invested in any one institution at any one time, taking specified and non specified investments together, is £10m.

2.5.6 The maximum amount which can be invested in periods longer than 364 days is £15m.

**2.6 Monitoring Credit ratings**

2.6.1 The credit ratings of counterparties are monitored on a weekly basis using credit rating information received from our Treasury Consultants on all active counterparties that comply with the above criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are received from the treasury consultants almost immediately after they occur and this information is used to review the counterparty list before dealing. The information provided includes the credit ratings and potential changes to credit ratings of counterparties with whom the PCC has current investments.

2.6.2 If a rating is downgraded on an institution with which the PCC has an existing investment then the following action is taken:

- If it goes below the minimum criteria the PCC has established (with all Agencies with whom the Counterparty is rated), the risk implications are discussed with the external advisors and, if it is deemed appropriate, a request is made to return the investments (It should be noted however that the general position taken by Investment Counterparties is not to return wholesale term deposits before the maturity date).

- If it remains within the investment criteria then the risk implications are discussed with our external advisors and the position monitored.

2.6.3 Any counterparty failing to meet the minimum criteria is immediately removed from the investment list and will not be considered for new investments.

2.6.4 Where ratings are upgraded, new counterparties are added to the list when they meet the minimum criteria.

2.6.5 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst the PCC is asked to approve this base criteria, under the exceptional current market conditions the PCC's Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions.  Similarly the time periods for investments will be restricted.

2.6.6 Examples of these restrictions would be use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local PCC deposits), Money Market funds and guaranteed deposit facilities.

## 2.7 External Service Providers

2.7.1 Treasury Management Providers - The PCC uses Capita as his treasury management consultants through its Service Level Agreement with Wakefield MDC.  The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

Whilst the advisers provide support to the internal treasury function through the Service Level Agreement, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the PCC.  This service is subject to regular review.

Software Providers – The PCC uses Treasurynet Ltd as its provider of cashflow software through its Service Level Agreement with Wakefield MDC.  The software is used to maintain loan and investment records along with daily cashflow transactions in order to inform borrowing and investment decisions.

## 2.8 PCC and Officer Training

2.8.1 The increased consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for officers.

Officer Training – Regular Intermediate and Advanced Treasury Management training is undertaken by key members of staff.  The majority of this training is provided by Capita, however, staff are encouraged to undertake other relevant training as it becomes available.

Training for the PCC and members of the Independent Audit Committee is available through the regular Treasury Management courses provided by Capita as part of the Service Level Agreement.

# MRP POLICY

1. All expenditure incurred by the PCC must be charged to the revenue account in the year it is incurred, with the exception of items which can be capitalised in accordance with proper accounting practice – in essence items which have an expected life of more than one year.

2. Capital expenditure on such items (land, buildings, IT, vehicles and equipment) can be resourced in a number of ways. In the case of capital grant, capital receipts, and contributions from the revenue budget, the expenditure is effectively paid for as it is incurred by application of those resources.

3. In the case of capital expenditure financed by borrowing, the expenditure is paid for from the revenue budget by making an annual prudent provision known as a Minimum Revenue Provision (MRP) using one of the options set out in the Statutory Guidance issued by DCLG.

4. The Guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed by the PCC prior to the start of each financial year.

5. The intention of the guidance is to ensure that the repayment to revenue is made over a period bearing some relation to that over which the asset continues to provide a service.

6. The recommended MRP Statement is as follows:

    a. For capital expenditure incurred before 1 April 2008 or which will in the future be Supported Capital Expenditure (i.e. the amount which attracts revenue support grant through the Capital Financing Block), the MRP policy will be:

       Based on 4% of the Capital Financing requirement.

    b. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

       Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations based on either the equal instalment method or the annuity method.

7. The PCC’s policy is to finance shorter lived assets from capital receipts, grants and revenue contributions, with borrowing generally reserved for land and buildings with an expected life in excess of 25 years.

# TREASURY MANAGEMENT PRACTICES

## TMP1: Treasury risk management:

1. Credit and counterparty risk
   The risk of failure of a third party to meet their contractual obligations under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness.

2. Liquidity risk
   The risk that cash will not be available when needed.

3. Interest rate risk
   Fluctuations in the levels of interest rates create an unexpected or an unbudgeted burden on an organisation's finances against which it has failed to protect itself adequately.

4. Exchange rate risk
   The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on an organisation's finances.

5. Refinancing risk
   The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and revenue.

6. Legal and regulatory risk
   The risk that the organisation fails to act in accordance with its powers or regulatory requirements.

7. Fraud error, corruption and contingency management
   The failure to employ suitable systems and procedures and to maintain effective contingency management arrangements to these ends.

8. Market risk
   The risk that through adverse market fluctuations in the value of the principal sums an organisation invests, it's stated policies and objectives are compromised.

## TMP2: Performance measurement

- The process designed to calculate the effectiveness of the portfolio's or manager's investment returns or borrowing costs and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognised industry standards or market indices.

**TMP3: Decision-making and analysis**

- Consideration of key aspects such as risk, legality, creditworthiness and competitiveness.

**TMP4: Approved instruments, methods, and techniques**

- Consideration of the types of investment instruments the organisation is legally able to deal in and also the level of competences available within the organisation to allow effective decisions to be taken.

**TMP5: Organisation, clarity and segregation of responsibilities and dealing arrangements.**

- Clear organisational and decision making lines, clearly laid down division of responsibilities, proper internal control procedures in place.

**TMP6: Reporting requirements and management information requirements.**

- Covering reporting lines and frequencies.

**TMP7: Budgeting, accounting, and audit arrangements**

- Covering manpower costs, debt and financing costs, bank and overdraft charges, brokerage commissions, external advisor's and consultants' costs.

**TMP8: Cash and cash flow management**

- The preparation of cash flow management forecasts and 'actuals' to determine acceptable levels of cash balances, the adequacy of overdraft facilities and the optimum arrangements for investing and managing surplus cash.

**TMP9: Money laundering**

- Making Treasury staff aware of the provisions of the Money Laundering Regulations 2007 and associated legislation such as the Terrorism Act 2000 and the Proceeds of Crime Act 2002, and ensuring (as far as possible) that adequate procedures are in place to ensure effective compliance with them.

**TMP10: Staff training and qualifications**

- Ensuring the staff training and development regime is in place and that staff are competent to operate within a treasury environment.

**TMP11: Use of external service providers**

- Ensuring that correct appointment and renewal procedures are followed.

**TMP12: Corporate governance**

- The code requires a commitment to the principles of corporate governance, which will embrace the TPS itself, treasury policies, procedural guidelines and defined responsibilities, dealings with counter parties and external bodies.