

**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: **08/2014**

Title: **TREASURY MANAGEMENT STRATEGY STATEMENT**

Executive Summary:

The Commissioner has responsibility for Treasury Management. Treasury Management activities are governed by a range of legislation and guidance. The proposed Treasury Management Strategy Statement for 2014/15, including the Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy, meet the legislative requirements of the Local Government Act 2003, CIPFA codes and CLG guidance.

Decision:

That the Treasury Management Strategy Statement Management for 2014/15 be approved.

Background Report: Open

Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature

Matthew Grove

Date 20.03.14

**POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE**

DECISION RECORD: SUPPORTING REPORT FOR DECISION

Title: TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15

Date: 26 March 2014

1. Purpose:

The purpose of the report is to secure approval to the Treasury Management Strategy Statement for 2014/15.

2. Issue:

The PCC has responsibility for Treasury Management. To discharge this responsibility you must agree a Treasury Management Strategy Statement (TMSS) for 2014/15 in order to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The CIPFA Code of Practice on Treasury Management must also be adhered to together with CLG guidance.

3. Recommendations:

- Approve the Treasury Management Strategy Statement for 2014/15.

4. Background:

The Prudential Code for Capital Finance in Local Authorities underpins the system of capital finance. It enables self determination of the funding for capital investment programmes. The Code provides a framework to ensure that when strategic planning, asset management and investment decisions are made, they are affordable, prudent and sustainable. It ensures that treasury management operates in accordance with good professional practice including recording decisions and promoting accountability.

The proposed TMSS for 2014/15 is attached at Annex 1.

The Financial Management Code of Practice confirms that you are responsible for loans, investments and for borrowing money as you hold the Police Fund. The Chief Constable is not able to borrow money.

The proposed Treasury Management Policy Statement is detailed below:

- *Treasury management activities are defined as:*

'The management of the organisation's investments and 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'

- *The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.*

- *The PCC acknowledges that effective treasury management will provide support towards the achievement of his business and service objectives. There is therefore a commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.*

The Treasury Management Strategy Statement includes details of prudential indicators to assess affordability of investment plans. A policy for making Minimum Revenue Provision (MRP), how capital will be charged to revenue, is also included together with parameters on how investments will be made and managed.

The approved TMPS will be updated for consequential changes arising from the new strategy statement.

5. Options:

The Prudential Code has to be adopted within formal policy documents to enable borrowing to be undertaken in accordance with the Local Government Act 2003. You must have regard to this and CLG guidance in relation to local government investments. As a result, you are required to agree a treasury management policy. You are also required have an approved strategy, including prudential indicators and treasury management practices in place.

6. Risks/Implications:

The TMSS and TMPS provide detailed information in relation to risks associated with treasury management activity. It is acknowledged that risk cannot be entirely eliminated. However, the Statement and the approved

procedures are intended mitigate the risks involved and limit exposure to unforeseen and unbudgeted financial consequences.

7. Financial Comments:

You must adopt the Prudential Code to provide the basis for making funding decisions in connection with the capital programme. The proposals detail the action necessary to ensure there is a clear framework within which treasury management activity takes place. This covers both borrowing and lending.

The financial implications of treasury management have been factored into your precept proposal, the budget for 2013/14 and Medium Term Financial Strategy (MTFS) 2014/15 – 2018/19 and the calculations used in developing the prudential indicators reflect the information contained within those documents. Budget monitoring reports will take account of variations from original assumptions.

8. Legal Comments:

The requirements of the Local Government Act 2003, the CIPFA Code and CLG guidance must be complied with. This is achieved by determining and approving the treasury management policies and strategies in place supported by the agreed practices and procedures.

9. Equality Comments:

There are no equalities implications.

10. Next steps:

If the recommendations are accepted all treasury management activity will be undertaken in line with the agreed procedures and practices.

11. Background/Supporting Papers

Police Reform and Social Responsibility Act 2011

Policing Protocol Order 2011

Financial Management Code of Practice for Police

Decision Record 9/2013 and supporting documentation

**POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE**

**Treasury Management
Strategy Statement 2014/15**

(Including Minimum Revenue Provision Policy
and Annual Investment Strategy)

INDEX

1	INTRODUCTION	4
1.1	Background.....	4
1.2	Reporting requirements.....	4
1.3	Treasury Management Strategy for 2014/15.....	4
1.4	Training	5
1.5	Treasury management consultants.....	5
2	THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17	5
2.1	Capital expenditure.....	5
2.2	The PCC's borrowing need (the Capital Financing Requirement)	6
2.3	Minimum revenue provision (MRP) policy statement.....	6
2.4	Core funds and expected investment balances	7
2.5	Affordability prudential indicators	7
2.6	Ratio of financing costs to net revenue stream.....	7
2.7	Incremental impact of capital investment decisions on the PCC's element of Council Tax..	7
3	Borrowing	7
3.1	Current portfolio position	8
3.2	Treasury Indicators: limits to borrowing activity	8
3.3	Prospects for interest rates	9
3.4	Borrowing strategy.....	10
3.5	Policy on borrowing in advance of need	12
3.6	Debt rescheduling.....	12
4	ANNUAL INVESTMENT STRATEGY	13
4.1	Investment policy.....	13
4.2	Creditworthiness policy	13
4.4	Investment strategy	15
4.5	Icelandic bank investments.....	15
4.6	Investment risk benchmarking	16
4.7	End of year investment report.....	16
5	Appendices	17
5.1	Interest Rate Forecasts 2014 - 2016.....	18
5.2	Economic Background	19
5.3	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management ...	23
5.4	Treasury management scheme of delegation	24
5.5	The treasury management role of the section 151 officer.....	25

1 INTRODUCTION

1.1 Background

The Police and Crime Commissioner (PCC) 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 PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure that the PCC can meet capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet PCC risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The PCC is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report - This will provide the PCC with an update on the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the PCC. This role is undertaken by the Joint Independent Audit Committee (JIAC).

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that those with responsibility for treasury management receive adequate training in treasury management. This especially applies to those responsible for scrutiny. Training was provided for the PCC, DPCC and members of the JIAC on 6 March 2014 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The PCC uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

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

The PCC also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. He 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist in providing an overview and the confirmation of capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The PCC is asked to approve the capital expenditure forecasts:

Capital expenditure	2012/13 Actual £'m	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Total	14.356	9.755	11.985	9.287	4.584

Other long term liabilities. The above financing need excludes other long term liabilities, i.e. leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure	2012/13 Actual £'m	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Total	14.356	9.755	11.985	9.287	4.584
Financed by:					
Capital receipts	0.154	0.281	0	0	0
Capital grants	1.798	1.761	1.700	1.700	1.700
Capital reserves	0	0	0	0	0
Revenue	0.334	0.019	0	0	0
Net financing need for the year	12.070	7.694	10.285	7.587	2.884

2.2 The PCC's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). 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 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. 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. The PCC currently has one finance lease of £0.556m within the CFR in connection with the helicopter.

The PCC is asked to approve the CFR projections below:

	2012/13 Actual £'m	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Capital Financing Requirement					
Total CFR	52.804	59.167	66.726	70.987	69.869
Movement in CFR	10.654	6.363	7.559	4.261	(1.118)

Movement in CFR represented by					
Net financing need for the year (above)	12.070	7.694	10.285	7.587	2.884
Less MRP/VRP and other financing movements	1.416	1.331	2.726	3.326	4.002
Movement in CFR	10.654	6.363	7.559	4.261	(1.118)

2.3 Minimum revenue provision (MRP) policy statement

The PCC is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the PCC to approve an **MRP Statement** in advance of each year. A variety of options are provided to PCCs, so long as there is a prudent provision. The PCC is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all borrowing (including finance leases) the MRP policy will be:

- **Asset life method** - MRP will be based on the estimated life of the assets or in accordance with regulations (e.g. for any expenditure capitalised under a Capitalisation Direction) and provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in the finance lease are applied as MRP.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates reflecting the estimate of working capital requirements.

Year End Resources	2012/13 Actual £'m	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Expected investments	4.531	1.000	1.000	1.000	1.000

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The PCC is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
PCC	1.08	1.34	2.08	2.79	3.47

The estimates of financing costs include current commitments and the proposals in this report.

2.7 Incremental impact of capital investment decisions on the PCC's element of the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the PCC's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the PCC's Band D Council Tax

	2012/13 Actual £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
PCC - Band D Council Tax	2.13	2.53	5.12	4.73	3.02

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the PCC's activity. The treasury management function ensures that the PCC's cash is organised in accordance with the the relevant

professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The PCC's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2012/13 Actual £'m	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
External Debt					
Debt at 1 April	17.541	23.860	30.373	39.478	44.894
Expected change in Debt	6.319	6.513	9.105	5.416	1.011
Other long-term liabilities (OLTL)	1.081	0.834	0.556	0.278	0
Expected change in OLTL	(0.247)	(0.278)	(0.278)	(0.278)	0
Actual gross debt at 31 March	24.694	30.929	39.756	44.894	45.905
The Capital Financing Requirement	52.804	59.167	66.726	70.987	69.869
Under / (over) borrowing	28.110	28.238	26.970	26.093	23.964

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and 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.

The Deputy Chief Executive and Treasurer reports that the PCC complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Debt	69.987	68.869	65.841	65.841
Other long term liabilities	0.556	0.278	0	0
Total	70.543	69.147	65.841	65.841

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised.
2. The PCC is asked to approve the following authorised limit:

Authorised limit	2013/14 Estimate £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m
Debt	71.987	70.869	67.841	67.841
Other long term liabilities	0.556	0.278	0	0
Total	72.543	71.147	67.841	67.841

3.3 Prospects for interest rates

The PCC has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the PCC to formulate a view on interest rates. The following table gives Capita's central view and a more detailed interest rate view and economic commentary is detailed in appendices 5.1 and 5.2.

Annual Average	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.60	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.80	4.60	4.60
Mar 2015	0.50	2.90	4.70	4.70
Jun 2015	0.50	2.90	4.70	4.80
Sep 2015	0.50	3.00	4.80	4.90
Dec 2015	0.75	3.10	4.90	5.00
Mar 2016	0.75	3.20	5.00	5.10
Jun 2016	1.00	3.20	5.00	5.10
Sep 2016	1.25	3.30	5.10	5.10
Dec 2016	1.50	3.40	5.10	5.20
Mar 2017	1.75	3.50	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The PCC 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 PCC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Deputy Chief Executive and Treasurer 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, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from 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 the 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 reported to the PCC at the next available opportunity.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

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

The PCC is asked to approve the following treasury indicators and limits:

£m	2014/15	2015/16	2016/17
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	39.756	44.894	45.905
Limits on variable interest rates based on net debt	(1.000)	(1.000)	(1.000)
Limits on fixed interest rates:			
• Debt only	39.756	44.894	45.905
• Investments only	0	0	0
Limits on variable interest rates			
• Debt only	0	0	0
• Investments only	1.000	1.000	1.000
Maturity structure of fixed interest rate borrowing 2014/15			
	Lower	Upper	
Under 12 months	0%	50%	
12 months to 2 years	0%	75%	
2 years to 5 years	0%	80%	
5 years to 10 years	0%	80%	
10 years and above	0%	100%	
Maturity structure of variable interest rate borrowing 2014/15			
	Lower	Upper	
Under 12 months	0%	N/A	
12 months to 2 years	0%	N/A	
2 years to 5 years	0%	N/A	
5 years to 10 years	0%	N/A	
10 years to 20 years	0%	N/A	
20 years to 30 years	0%	N/A	
30 years to 40 years	0%	N/A	
40 years to 50 years	0%	N/A	

3.5 Policy on borrowing in advance of need

The PCC 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 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 (premiums incurred).

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 treasury 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 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 PCC at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The PCC'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 PCC's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the PCC has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the PCC's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the PCC will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix 5.3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the PCC's treasury management practices – schedules.

4.2 Creditworthiness policy

This PCC applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS 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 used by the PCC to determine the suggested duration for investments.

The PCC will therefore use counterparties within the following durational bands but, as detailed below, will only lend monies for no longer than 364 days:

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour
				Colour (and long term rating where applicable)		Time Limit		
Banks *				yellow		5yrs		
Banks				purple		2 yrs		
Banks				orange		1 yr		
Banks – part nationalised				blue		1 yr		
Banks				red		6 mths		
Banks				green		100 days		
Banks				No colour				
DMADF				AAA		6 months		
Local authorities				n/a		n/a		
Money market funds				AAA		liquid		
Enhanced money market funds with a credit score of 1.25				Dark pink / AAA		liquid		
Enhanced money market funds with a credit score of 1.5				Light pink / AAA		liquid		

The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the PCC use will be a short term rating (Fitch or equivalent) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a monthly basis. The PCC is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the PCC will be advised of information in movements in credit default swap spreads 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 PCC's lending list.

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

The PCC has agreed that investments will not be made with foreign financial institutions.

4.4 Investment strategy

In-house funds. Investments will 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.75%
- 2016/17 1.75%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.50%
- 2017/18 2.25%

Investment treasury indicator and limit - the PCC has agreed that funds will not be invested for greater than 364 days.

For cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Icelandic bank investments

All treasury management reports will include updates on the action being taken to recover monies invested with the UK subsidiaries of the Icelandic Banks, Heritable Bank and Kaupthing Singer and Friedlander (KSF) which collapsed in October 2008. The financial statements for 2012/13 will include details of the updated calculations of impairments based on the latest forecasts of dividends from the Administrators, Ernst and Young.

4.6 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report

Security - seeking to minimise all security risk to avoid any losses within the portfolio

Liquidity - seeking to maintain liquid short term deposits of at least £1m available with immediate access

Yield - seeking to achieve yields on investments on rate above the 7-day LIBID rate.

4.7 End of year investment report

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

5. APPENDICES

- 5.1 Interest rate forecasts
- 5.2 Economic background
- 5.3 Treasury management practice 1 – credit and counterparty risk management
- 5.4 Treasury management scheme of delegation
- 5.5 The treasury management role of the section 151 officer

5.1 Interest Rate Forecasts 2014 - 2017

Capita Asset Services Interest Rate View														
	Now	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.40%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.20%	1.50%	1.70%
6 Month LIBID	0.49%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.30%	1.50%	1.70%	2.00%
12 Month LIBID	0.78%	0.80%	0.80%	0.80%	0.80%	0.90%	1.10%	1.20%	1.40%	1.60%	1.70%	1.90%	2.10%	2.30%
5yr PWLB Rate	2.63%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
10yr PWLB Rate	3.66%	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.50%
25yr PWLB Rate	4.32%	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.00%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.29%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.63%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
UBS	2.63%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.63%	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	3.66%	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.50%
UBS	3.66%	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
Capital Economics	3.66%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	4.32%	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.00%	5.10%	5.10%	5.10%
UBS	4.32%	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
Capital Economics	4.32%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	4.29%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%
UBS	4.29%	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
Capital Economics	4.29%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

(PWLB rate forecasts are based on the PWLB certainty rates.)

5.2 Economic Background

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.7%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the February quarterly Inflation Report for 2014 to 3.4%, 2015 to 2.7% and 2016 to 2.8%. The February Report stated that: -

The UK recovery has gained momentum and inflation has returned to the 2% target. Reduced uncertainty, easier credit conditions and the stimulative stance of monetary policy should support continued solid economic growth, with the expansion in demand becoming more entrenched and more broadly based.

Robust growth has not so far been accompanied by a material pickup in productivity. Instead, employment gains have been exceptionally strong and unemployment has fallen much more rapidly than expected. The LFS headline unemployment rate is likely to reach the MPC's 7% threshold by the spring of this year. Even so, the Committee judges that there remains spare capacity, concentrated in the labour market.

Inflation is likely to remain close to the target over the forecast period. Given this, and with spare capacity remaining, the MPC judges that there remains scope to absorb slack further before raising Bank Rate. Moreover, the continuation of significant headwinds — both at home and from abroad — mean that Bank Rate may need to remain at low levels for some time to come.

Forward guidance. The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure), had fallen to 7% or below. However, unemployment has fallen much quicker than the Bank expected and currently (17.2.14), stands at 7.1%. Accordingly, in the February Report, the Bank has now broadened its approach as follows: -

1. The MPC reckons there is spare capacity in the economy of 1-1.5% of GDP, mainly in the labour market
2. They will refrain from raising Bank Rate until a significant inroad has been made into reducing this spare capacity
3. They will provide additional forecasts based on eighteen economic indicators which they will take into account in considering the path of Bank Rate and QE
4. First increase in Bank Rate likely to be around Q2 2015
5. Rate rises will be slow and gradual (translation - probably 25bp per quarter)
6. Governor Carney expected that Bank Rate would be around 2% in three years time i.e. Q1 2017
7. Bank Rate is unlikely to get back up to pre crisis levels of 5% even when the economy has returned to normal
8. The Bank will not sell any of their portfolio of asset purchases before the first rise in the Bank Rate (but that does not mean they WILL start then!) and will also reinvest maturing gilts until then
9. They were more pessimistic on growth of productivity which has failed to keep pace with rises in output
10. They will make it a priority to protect growth in the economy provided inflation remains subdued (inflation forecast to be well behaved over the next two years: 1.9% in two year's time)

Forward surveys are currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to

some extent. This, therefore, means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy, aimed at supporting the purchase of second hand properties, started in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. The Bank does not feel that Bank Rate increases would be effective in reducing house price inflation in London as a large part of property purchase is being done as cash transactions and / or by foreign purchasers, and is aggravated by a major short fall in new housing supply compared to the level of demand. As for bank lending to small and medium enterprises, this continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.0% in December. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50 – 60%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA. The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 3.6% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its \$85bn per month asset purchases programme of quantitative easing by \$10bn and by another \$10bn in January. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. However, the political deadlock and infighting between Democrats and Republicans over the US budget and raising of the debt limit, has finally been resolved. This removes two destabilising issues for bond yields but investor concerns over the impact of tapering on emerging market countries created a surge of volatility during January, and especially in reaction to adverse political and economic developments in Argentina and Turkey.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support
- Lack of support by populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia which could trigger safe haven flows back into bonds.

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

- A further upturn in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

	Minimum credit criteria / colour band	Max % of total investment s/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%/ No limit	Up to 1 year
DMADF Government Treasury blls	UK sovereign rating	100%/ No limit	Up to 1 year
Money market funds	AAA	100%/ £10m	Liquid
Local authorities	N/A	100%/ £15m	Up to 1 year
Term deposits with banks and building societies*	Yellow Purple Blue Orange	£15m	Up to 1 year
	Red Green No Colour	£10m £10m n/a	Up to 6 Months Up to 100 days Not for use

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 'High' 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 are subject to the limits detailed above.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this PCC. To ensure that the PCC is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

5.4: Treasury management scheme of delegation

(5) Police and Crime Commissioner

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- 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) Joint Independent Audit Committee responsibility for scrutiny

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

5.5 The treasury management role of the section 151 officer

The Deputy Chief Executive and Treasurer (the PCC's S151 officer)

- 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.

