OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD

Decision Record Number: **01/2016**

Title: **Mid Year Treasury Management Review Report 2015/16**

Executive Summary:
The report provided details of the Treasury Management activity undertaken during the period 1 April to 30 September 2015 submitted. The report had been submitted to the Joint Independent Audit Committee on 18.12.15 where it had been recommended for approval.

Decision:
That the Treasury Management Mid Year Review Report 2015/16 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 06.01.16**

Joint Independent Audit Committee

Agenda Item 14

18 December 2015

Report of the Deputy Chief Executive and Treasurer

TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2015/16

PURPOSE OF THE REPORT

1. This report provides details of Treasury Management activity undertaken during the period 1 April to 30 September 2015. It demonstrates compliance with the agreed arrangements set out within the Treasury Management Strategy Statement (TMSS) approved by the Police and Crime Commissioner (PCC) in March 2015.

BACKGROUND

2. As members are aware, the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance which allows local authorities, including PCCs, to determine their own programmes for capital investment. The aims are to ensure authorities operate within a clear framework to satisfy themselves that investment plans are considered affordable, prudent and sustainable and treasury management decisions are taken in accordance with good professional practice.

3. The Code requires the PCC to agree a Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) which set out the responsibilities, delegation and reporting arrangements with regard to treasury management. They are designed to support and record local decision making in a manner that is publicly accountable.

4. The TMSS for 2015/16 was approved in March 2015. It requires those setting the policy and strategy to receive a minimum of a Mid-Year Review Report and an Annual Report on treasury management activities.

5. The Annual Report for 2014/15 was considered by this Committee on 26 June 2015 prior to approval by the PCC.

6. This report ensures that the requirements of the Strategy, and therefore the Code, are met. It will need to be approved by the PCC at a future submissions session following consideration by this Committee.

7. The Mid-Year Review Report has been prepared in conjunction with Capita Treasury Solutions, treasury management advisers to the PCC.

8. The Report for 2015/16 is attached at Appendix 1 and includes details of performance and information on relevant agreed Treasury and Prudential Indicators.

OPTIONS, RISKS AND OPPORTUNITIES

9. The TMSS sets out detailed information in relation to risks associated with treasury management activity and proposed mitigating actions whilst acknowledging that the risk cannot be entirely eliminated. The TMSS and the TMPs and the procedures detailed within them are intended to limit the exposure to unforeseen and unbudgeted financial consequences of treasury management activity.

10. The reporting requirements are intended to ensure that treasury management activity has been conducted in accordance with the policy and strategy agreed by the PCC and that treasury management operations have been performed within agreed limits. There is no option but to consider the report.

11. Capita Treasury Solutions have provided officers with ongoing detailed information in relation to treasury management activity. It must continue to be recognised however that the responsibility for all decisions with regard to policies, strategy and transactions remain with the PCC.

12. There have been changes to the methodologies used by the main rating agencies (Fitch, Moody's and Standard and Poor's) in response to the evolving regulatory regime governing banks. This is part of a wider assessment involving removal of implied sovereign support and taking additional factors into account such as levels of capital. Capita have amended their credit assessment that is used as a guide to the creditworthiness of counterparties. Other components of the assessment, rating watches and Credit Default Swap information, remains unchanged.

13. It should be noted that the rating agency changes do not reflect the underlying status or credit quality of the counterparties that are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial conditions without government support. The investments that have been held during the first half of the financial year and that are currently held are with institutions with the highest credit quality. The monthly investment reports that are available to members via their secure area of the website provide details of the investments held and the level of counterparty risk.

14. During the year officers have re-examined the indicators approved in March 2015 and have identified the need to amend those relating to the exposure to variable rates of interest for borrowing and investments. This is as a result of recent advice that fixed rate investments of less than one year should be treated as variable rate. Details of the revised indicators proposed are set out in the table below:-

	2015/16		2016/17		2017/18	
Interest rate exposures						
	Current	Proposed	Current	Proposed	Current	Proposed
	Upper		Upper		Upper	
	£'m	£'m	£'m	£'m	£'m	£'m
Limits on fixed interest rates based on net debt	40.888	63.000	41.966	66.000	44.204	62.000
Limits on variable interest rates based on net debt	1.000	31.000	1.000	32.500	1.000	30.500
Limits on fixed interest rates: Debt only Investments only	 40.888 0	 64.000 0	 41.966 0	 67.000 0	 44.204 0	 63.000 0
Limits on variable interest rates Debt only Investments only	 0 1.000	 32.000 46.000	 0 1.000	 33.500 50.000	 0 1.000	 31.500 50.000

POLICING PLAN AND PERFORMANCE

15. Effective treasury management arrangements are an important factor in ensuring that the Force and the OPCC operate efficiently and in doing so contribute to the delivery of the Police and Crime Plan by seeking to make the best use of resources.

IMPACTS ON OR LINKS TO COLLABORATION

16. There are no direct links to collaboration as the treasury management activity relates solely to Humberside however it should be noted that the Humberside Treasury Team took over responsibility for the South Yorkshire Police and Crime Commissioner's treasury management activity with effect from 3 July 2015.

FINANCIAL IMPLICATIONS

17. The Treasury Management Mid-Year Review Report sets out details of the treasury management activity undertaken in the period 1 April to 30 September 2015. The financial implications of treasury management activity are factored into budget monitoring reports and have been incorporated into updates of the Medium Term Financial Resources Strategy (MTRS). The MTRS enables the impact on the cashflow of potential budget and precept scenarios to be modelled and provides a basis for setting prudential and treasury management indicators.

LEGAL IMPLICATIONS

18. The PCC must comply with the requirements of the Local Government Act 2003 and to have regard to guidance from the Department for Communities and Local Government and the CIPFA Code when determining its treasury management policy and strategies together with detailed practices.

19. The TMSS requires the PCC to consider a Mid-Year Review Report on treasury management activity in the first half of the financial year.

EQUALITIES AND DIVERSITY AND HUMAN RIGHTS

20. There are no equality and diversity and human rights issues in the context of this report.

CONCLUSIONS

21. This Mid-Year Review Report sets out information on treasury management activity undertaken during the period 1 April – 30 September 2015. It includes a commentary on events affecting the money markets during the period, changes to the methodology for assessing the creditworthiness of counterparties and confirms that action has been taken locally to utilise counterparties with the highest credit quality.

22. The report provides detailed information on compliance with the treasury management practices agreed by the PCC and indicates that the treasury management operation has operated within the agreed Treasury and Prudential Indicators.

23. During the first half of the financial year officers identified the need to amend the agreed indicators relating to the limits on exposure to variable rates of interest. The revised indicators proposed are detailed in para 14.

RECOMMENDATION

24. It is recommended that:-

    (a) Members note the report on the treasury management activity that has been undertaken during the period 1 April to 30 September 2015, including changes to the credit agencies methodologies, and the proposed change to the indicators in relation to the exposure to variable rates of interest.

    (b) The report be recommended to the PCC for approval.

John Bates

Deputy Chief Executive and Treasurer

Office of the Police and Crime Commissioner for Humberside

Background Documents: JB/File/TM/2015/16 Q2

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Police and Crime Commissioner for Humberside

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-term Review Report 2015-16

1 Background

The Police and Crime Commissioner (PCC) operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising 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 PCC's borrowing need, essentially the longer term cash flow planning to ensure that capital spending operations can be met. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet PCC's risk or cost objectives.

Accordingly, treasury management is defined 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."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by the PCC in March 2015.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Strategy Statement which sets out the policies and objectives of the PCC's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the PCC will seek to achieve those policies and objectives.
3. Receipt by the PCC of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-Year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the PCC of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the PCC of the role of scrutiny of treasury management strategy and policies to a specific named body. For the PCC the delegated body is the Joint Independent Audit Committee.

This Mid-Year Review Report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2015/16 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The PCC's capital expenditure (prudential indicators);
- A review of the PCC's investment portfolio for 2015/16;
- A review of the PCC's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16.

Key Changes to the Treasury and Capital Strategies

1. Changes in credit rating methodology.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the credit element of our credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, the highest sovereign rating was typically assigned on determining the investment criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. It should be noted that underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

3 Economic update

3.1 Economic performance to date and outlook

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken marginally to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget.

Despite these headwinds, the Bank of England forecast growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation fell to, or near to zero. Investment expenditure was also expected to support growth.

The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

USA. The American economy has made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. This has led to a reappraisal of the likelihood of any increase occurring in 2015.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and was intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

3.2 Interest rate forecasts

The PCCs treasury advisor, Capita Asset Services, undertook a review of its interest rate forecasts on 11 August and provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall. However, as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, compounded downward pressure on equity prices and there was a great deal of volatility in rates

Despite market turbulence in late August, and then September, causing a sharp downturn in PWLB rates, the overall trend in the longer term will be 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 eventual world economic recovery was also seen as likely to compound this effect as recovery would encourage investors to switch from bonds to equities.

Capita Asset Services undertook a further review of interest rates on 9 November 2015 as detailed below:-

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%
25yr PWLB rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%
50yr PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%

Overall the risks to economic recovery in the UK are currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Capita have regularly commented on the continuing unpredictability of PWLB rates and bond yields are at present. Markets are currently experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. £'m

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

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth is weaker than currently anticipated.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- 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 to 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 commencement by the US Federal Reserve of increases in the Fed. funds rate in the near future, 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.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the PCC on 31 March 2015. There are no policy changes to the TMSS.

Prudential Indicator 2015/16	***Original £m***	***Revised Prudential Indicator £m***
Authorised Limit	70.125	64.120
Operational Boundary	68.125	62.120
Capital Financing Requirement	68.344	61.807

5 The PCC's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The PCC's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Total capital expenditure	**10.340**	**10.990**	**5.802**

A significant underspend is projected on the capital programme. This is because:

- The Contact Management System Stage 2 scheme has been the subject of significant cost reductions as the scheme has developed;
- The Criminal Justice Replacement System scheme has been delayed in starting due to requirements for determining the system specification and the tendering process. It has been requested that £1.8m is slipped to 2016/17 for this scheme; and
- A number of estates capital schemes cannot be completed in the current financial year due to the pressures on the Estates Team of completing Building the Future moves and working across two Forces. The schemes that can be delivered this year have been prioritised to ensure that there are no significant impacts on operational delivery.

The effect of these issues is to reduce the projected spend on the overall capital programme from £10.990m to £5.802m.

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the PCC by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Total capital expenditure	**10.340**	**10.990**	**5.802**
Financed by:			
Capital receipts	-	0.651	0.878
Capital grants	1.400	1.361	1.361
Capital reserves	-	-	-
Revenue	-	-	-
Total financing	**1.400**	**2.012**	**2.239**
Borrowing requirement	**8.940**	**8.978**	**3.563**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The original forecast Capital Financing Requirement will move as a result of slippage in the capital programme.

Prudential Indicator – the Operational Boundary for external debt

	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	68.344	67.222	61.807
Net movement in CFR	**6.067**	**6.373**	**0.958**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	40.610	40.926	35.511
Other long term liabilities*	0.278	-	-
Total debt (year end position)	**40.888**	**40.926**	**35.511**

** On balance sheet finance leases etc.*

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years. The PCC has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Borrowing	40.610	40.926	35.511
Other long term liabilities*	0.278	-	-
Total debt	**40.888**	**40.926**	**35.511**
CFR* (year end position)	**68.344**	**67.222**	**61.807**

** Includes on balance sheet finance leases etc.*

The Deputy Chief Executive and Treasurer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the PCC. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2015/16 Original Indicator £m**	**Current Position £m**	**2015/16 Revised Indicator £m**
Borrowing	69.847	69.535	64.120
Other long term liabilities*	0.278	-	-
Total	**70.125**	**69.535**	**64.120**

** Includes on balance sheet finance leases etc.*

6 Investment Portfolio 2015/16

In accordance with the Code, it is the PCC's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The PCC held £29.250m of investments as at 30 September 2015 (£10.450m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.58% against a benchmark average 7 day LIBID rate of 0.36%.

The Deputy Chief Executive and Treasurer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

The PCC's original budgeted investment return for 2015/16 was £46k, with the latest estimate of investment income being £90k. £69k has been earned to 30 September 2015.

Investment Counterparty criteria

Details of changes in the methodologies used by the main rating agencies are highlighted in Section 1. No changes have been made to the list of potential counterparties for investment.

7 Borrowing

The PCC's capital financing requirement (CFR) for 2015/16 is £61.807m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the PCC may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the PCC has borrowings of £35.511m and has utilised £26.296m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

No new borrowing from the PWLB during the period covered by this report.

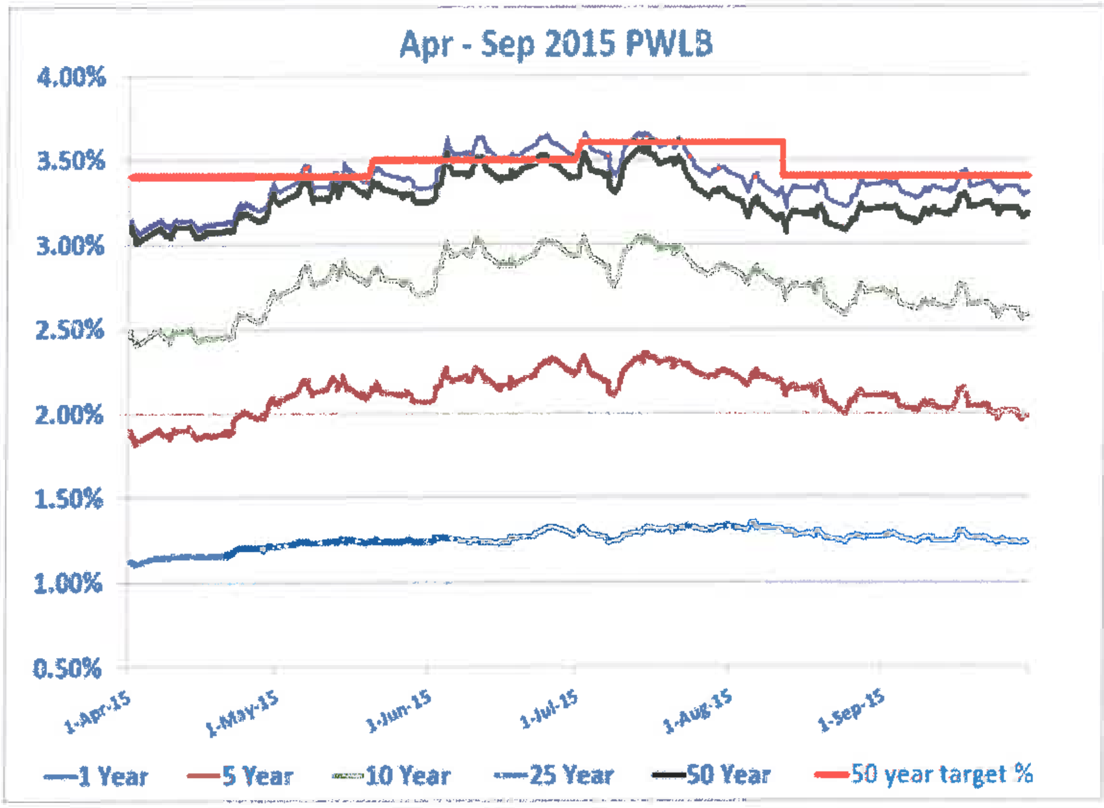
As outlined below, the general trend has been an increase in interest rates during the first quarter but then a fall during the second quarter.

It is anticipated there will be a very limited requirement for external borrowing to be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2015 to 30th September 2015

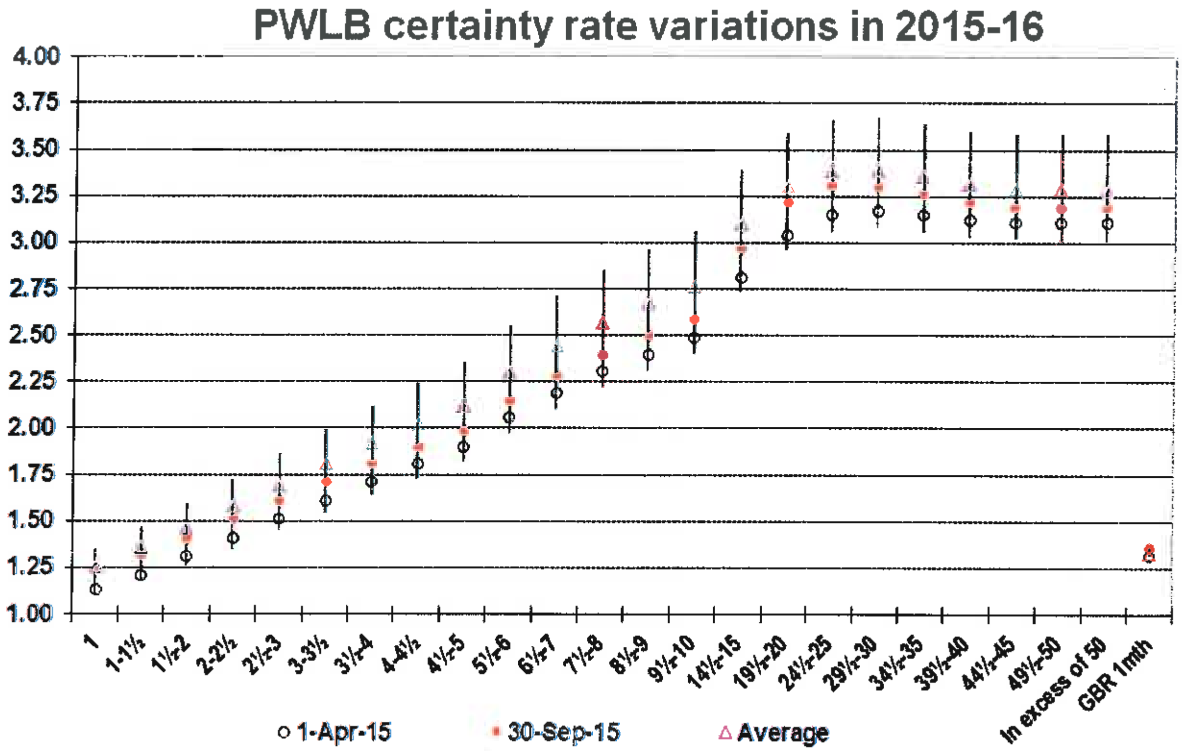
	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%



8 Debt Rescheduling

No debt rescheduling has been undertaken during the first six months of 2015/16.

APPENDIX 1: borrowing



APPENDIX 2: Investing

The graph below shows a comparison of the benchmark LIBID rate compared with the bank rate.