

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

Decision Record Number: **09/2018**

Title: **Treasury Management Strategy Statement 2018/19**

Executive Summary:

A copy of the Treasury Management Strategy Statement was submitted. It had been considered by the Joint Independent Audit Committee on 19.03.18 and recommended to the Commissioner for approval.

Decision:

That the Treasury Management Strategy Statement for 2018/19 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



Date 31-3-2018

TREASURY MANAGEMENT
STRATEGY STATEMENT 2018/19

PURPOSE OF THE REPORT

1. This report introduces the draft Treasury Management Strategy Statement (TMSS) which covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.
2. The Police and Crime Commissioner (PCC) is required to approve the TMSS prior to the start of the new financial year and he has requested that it should be considered by this Committee prior to the final submission for approval.

BACKGROUND

3. The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance. It allows local authorities, including police and crime commissioners, to determine their own programmes for capital investment. The Prudential Code was developed as a professional code of practice to support this decision making process. Local authorities and PCCs are required by Regulation to have regard to the Prudential Code when carrying out their duties in accordance with the Local Government Act 2003.
4. The objectives of the Code are to ensure that when decisions on strategic planning, asset management and capital investment are made authorities, including PCCs, operate within a clear framework to satisfy themselves that investment plans are considered affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that these objectives have been fulfilled the Code sets out indicators that must be used and the factors that must be taken into account. It does not however suggest individual limits, these are matters for local authorities and PCCs themselves.
5. Prudential indicators required by the Code are designed to support and record local decision making in a manner that is publicly accountable.

6. The Code that has recently been revised along with MRP and investment guidance sets out the procedure for setting and revising prudential indicators. The revision modified the indicators slightly. The PCC who sets the budget must determine and set them reflecting budget decisions and approve them before the start of the financial year.
7. The guidance continues to seek to ensure that treasury management decisions give priority to security and liquidity as opposed to yield. It also recommends that investment strategies are considered at the start of each year. Revised strategies can be submitted at other times if changing circumstances mean that changes are required. Strategies should be published. It must be noted that local authorities, including PCCs, should not rely just on credit ratings but should also consider other information on credit risk. Strategies should comment on the use of treasury management consultants and also comment on money borrowed in advance of spending needs.
8. The revised guidance has been principally aimed at those authorities that have moved away from the traditional approach that the PCC has continued to adopt by engaging in non-treasury management activity e.g. investment in property. The PCC has no dealings of this nature and is therefore unaffected in relation to current day to day treasury management activities.
9. The revision also included the need for authorities to prepare capital strategies but due to the late publication of the documents it has been agreed that this will be implemented for 2019/20.
10. Treasury management consultants, Link Asset services have provided a template for the format for the TMSS and this has been used in the attached document.
11. The TMSS for 2017/18 was approved by the PCC in March 2017, including a policy statement.
12. The Treasury Management Policy Statement for 2018/19 is set out below:-
 - *Treasury management activities are defined as:-
'The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'*
 - *The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.*
 - *The PCC acknowledges that effective treasury management will provide support towards the achievement of his business and service objectives. He is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance*

measurement techniques, within the context of effective risk management.

13. The TMSS includes details of the recommended MRP policy. The main amendments to MRP guidance precluded changes to the method of calculation to reduce the amount set aside to create a credit. In addition, there is a new provision to limit asset lives to a maximum of 50 years. The PCC is not affected by either of these changes.

INFORMATION

14. The draft Treasury Management Strategy Statement for 2018/19 is attached at Appendix 1.

OPTIONS, RISKS AND OPPORTUNITIES

15. The PCC must have regard to the Treasury Management Code and so it has been established that this does not need to be formally adopted. CLG guidance in relation to investments must also be taken into consideration alongside that on MRP.
16. The PCC is required to agree a Treasury Management Policy Statement and to have set out details of Treasury Management Practices in place to manage day to day activities.
17. The draft TMSS provides detailed information in relation to risks associated with treasury management activity and proposed mitigating actions. It acknowledges that the risk cannot be entirely eliminated but the Statement and the procedures detailed within it are intended to limit the PCC's exposure to unforeseen and unbudgeted financial consequences of treasury management activity.

POLICING AND CRIME PLAN AND PERFORMANCE

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

IMPACTS OR LINKS WITH COLLABORATION

19. The PCC is continuing to carry out the treasury management function for the PCC for South Yorkshire under a service level agreement.

FINANCIAL IMPLICATIONS

20. The report sets out details of the steps being taken to ensure that the PCC operates within a clear framework in relation to its treasury management activity both in relation to lending and borrowing.

21. The Prudential Indicator for Capital Expenditure is supported by detailed information on the capital programme set out in the Medium Term Resource Strategy (MTRS) 2018/19-2022/23 that supported the PCC's proposal to increase the precept for 2018/19.
22. The MTRS and report on the precept proposal were considered by the Police and Crime Panel on 7 February 2018. The proposal was unanimously supported by the Panel.
23. There are no immediate financial implications in relation to the issues raised within this report however the financial consequences of treasury management activity generally are very significant and have been factored into the budget and financial forecasts within the MTRS. This information will be updated as the year progresses.

LEGAL IMPLICATIONS

24. The PCC is required to comply with the requirements of the Local Government Act 2003 and to have regard to both the CLG guidance and the CIPFA Code when determining treasury management policy and strategies and detailed practices.

EQUALITY AND DIVERSITY AND HUMAN RIGHTS

25. There is no direct impact on equality and diversity and human rights as a result of this report.

RECOMMENDATIONS

24. It is recommended that:-
 - a) Members consider the issues raised in this report and endorse the Treasury Management Strategy Statement 2018/19, and
 - b) The PCC should approve the final version of the Treasury Management Strategy Statement for 2018/19 that will be effective from 1 April 2018.

J BATES

Deputy Chief Executive and Treasurer

Background Papers: Treasury Management Policy – File ref: JB/TMSS/2018/19

Contact Officer: John Bates 01482 220785

**POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE**

**Treasury Management Strategy
Statement 2018/19**

Minimum Revenue Provision Policy Statement
and Annual Investment Strategy

CONTENTS

1.	Introduction	3
1.1	Background	3
1.2	Reporting Requirements	3
1.3	Treasury Management Strategy	4
1.4	Training	4
1.5	Treasury Management Consultants	5
2.	The Capital Prudential Indicators	6
2.1	Capital Expenditure	6
2.2	The PCC's Borrowing Need (the Capital Financing Requirement)	6
3.	Borrowing	8
3.1	Current Portfolio Position	8
3.2	Treasury Indicators: Limits to Borrowing Activity	9
3.3	Prospects for Interest Rates	9
3.4	Borrowing Strategy	12
3.5	Policy on Borrowing in Advance of Need	12
3.6	Debt Rescheduling	13
3.7	Municipal Bonds Agency	13
4.	Annual Investment Strategy	14
4.1	Investment Policy	14
4.2	Creditworthiness Policy	14
4.3	Country Limits	16
4.4	Investment Strategy	16
4.5	Investment Risk Benchmarking	16
4.6	End of Year Investment Report	16
5.	APPENDICES	17
5.1	The Capital and Prudential Indicators and Treasury Indicators 2018/19 – 2020/21 and mRP Statement	18
5.2	Interest Rate Forecasts 2018- 2021	20
5.3	Economic Background	21
5.4	Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management	25
5.5	Treasury Management Scheme of Delegation	26
5.6	Treasury management Role of the s151 Officer	27

INTRODUCTION

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, when it is prudent and economic, any debt previously drawn may be restructured to meet the PCC's risk or cost objectives.

CIPFA defines treasury management as:

"The management of the organisation's borrowing, 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."

Reporting requirements

The PCC is currently 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 update the PCC with the progress of the capital position, amending prudential indicators as necessary, and 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. The Joint Independent Audit Committee (JIAC) undertakes this role.

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that the PCC fully understands the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Treasury Management Strategy for 2018/19

The strategy for 2018/19 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
- the 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.

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 members responsible for scrutiny. The PCC, Chief Executive, JIAC members and treasury management staff received an extensive briefing on current treasury management issues from the PCC's treasury management advisers in August 2017 and further training will be arranged as required.

The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

The PCC uses Link 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 our external service providers.

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

THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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 members' overview and confirm capital expenditure plans.

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.

Capital expenditure £m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total	4.933	16.680	20.566	4.799	3.337

Other long-term liabilities. The above financing need excludes other long-term liabilities, such as leasing arrangements, which already include borrowing instruments.

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

Financing of capital expenditure £m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	1.435	0.430	-	-	-
Capital grants	1.331	0.698	0.697	0.697	0.697
Capital reserves	-	0.482	-	-	-
Revenue	0.052	-	-	-	-
Net financing need for the year	2.115	15.070	19.869	4.102	2.640

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 indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not been paid for immediately, 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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 by the lease provider and so the PCC is not required to separately borrow for these schemes. The PCC currently does not have any of these schemes.

The PCC is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement					
Total CFR	59.360	72.443	88.967	88.619	86.121
Movement in CFR	-0.573	13.126	16.524	-0.348	-2.498

Movement in CFR represented by					
Net financing need for the year (above)	2.115	15.070	19.869	4.102	2.640
Less MRP and other financing movements	-2.688	-1.987	-3.345	-4.450	-5.138
Movement in CFR	-0.573	13.083	16.524	-0.348	-2.498

BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the PCCI. The treasury management function ensures that the PCC's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the PCC's capital strategy. 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.

Current portfolio position

The PCC's treasury portfolio position at 31 March 2017, with forward projections is 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.

£m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt					
Debt at 1 April	31.947	29.207	42.333	58.798	59.489
Repayments	-2.740	-2.426	-3.404	-3.411	-3.378
Forecast New Debt	-	15.552	19.869	4.102	2.640
Other long-term liabilities (OLTL)	-	-	-	-	-
Actual gross debt at 31 March	29.207	42.333	58.798	59.489	58.751
The Capital Financing Requirement	59.360	72.443	88.967	88.619	86.121
Under / (over) borrowing	30.153	30.110	30.169	29.130	27.370

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 2018/19 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 or speculative 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.

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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	87.619	85.121	81.946	77.605
Other long term liabilities	-	-	-	-
Total	87.619	85.121	81.946	77.605

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 councils' plans (including those of PCCs), or those of a specific council (or PCC), although this power has not yet been exercised.
2. The PCC is asked to approve the following authorised limit:

Authorised limit £m	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	89.619	87.121	83.946	77.605
Other long term liabilities	-	-	-	-
Total	89.619	87.121	83.946	77.605

Prospects for interest rates

The PCC has appointed Link Asset Services as treasury advisor and as part of their service is to assist the PCC to formulate a view on interest rates. The following table gives their central view.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. At its February 2018 meeting, there was no change in Bank Rate but the forward guidance changed significantly to warn of "earlier, and greater than anticipated" rate of increases in Bank compared to their previous forward guidance. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in May and November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. There was a sharp rise in bond yields after the US Presidential election in November 2016 and yields have risen further more recently as a result of an agreement to a big increase in the government deficit aimed at stimulating economic growth and the Fed. taking the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature. We have also seen a sharp selloff in equities and bonds in February 2018 that has given further impetus to a rise in bond yields.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Political uncertainty in Germany and Italy following recent elections that has the capacity to impact on the direction of the EU.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2017-18 and increased sharply after the result of the general election in June 2017, after the September

MPC meeting, (when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases), and again in January and February 2018. Increases have been sharper in periods up to 10 years than in longer maturities. 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 higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

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 still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

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.

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.

Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The PCC may make use of this new source of borrowing as and when appropriate.

ANNUAL INVESTMENT STRATEGY

Investment policy

The PCC's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The PCC's investment priorities will be security first, portfolio liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the PCC applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties that also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; 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 achieve this consideration 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.

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.

Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the PCC's treasury management practices – schedules.

Creditworthiness policy

This PCC applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & 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:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds 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

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it 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 equivalents) of F1 and a Long Term rating of A-. 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 at least monthly. The PCC is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' 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 daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the PCC's lending list.

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, information on any external support for banks to help support its decision making process.

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	N/A
DMADF	UK sovereign rating	6 months
Local authorities	n/a	365 days

Country limits

The PCC has determined that only approved UK counterparties will be used.

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 stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

Investment returns are likely therefore to remain at low levels for a considerable period.

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit –

The PCC has determined that investments should not be made for longer than 365 days.

For cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts and short-dated deposits.

4.5 Investment risk benchmarking

The PCC will use an investment benchmark to assess the investment performance of the investment portfolio and this will be the average 7 day LIBID rate.

4.6 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.

APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2020/21 AND MRP STATEMENT

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 members' overview and confirm capital expenditure plans.

1.1.1 Capital expenditure

Capital expenditure £m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total	4.933	16.680	20.566	4.799	3.337

1.1.2 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 is provided to the PCC, so long as there is a prudent provision.

The PCC's MRP Statement is as follows:-

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, 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 unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations and any expenditure capitalised under a Capitalisation Direction.

1.1.3 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.

a. 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.

%	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratios	2.15	1.73	2.64	3.38	3.70

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

Maturity structure of borrowing

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

Maturity structure of fixed interest rate borrowing 2018/19		
	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%

5.1.5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

INTEREST RATE FORECASTS 2018 – 2021

Details of Link Asset Services' interest rate forecast updated on 13 February 2018 is set out below:

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

PWLB forecasts are based on PWLB certainty rates.

Further information is set out in section 3.3 above.

5.3 ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution**.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing**

consumer disposable income, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift UP in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has confounded pessimistic forecasts of weak growth by coming in at 1.8%, only marginally down on the 1.9% rate for 2016.** In 2017, quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 +0.3% (+1.5% y/y), quarter 3 +0.4% (+1.5% y/y) and Q4 was +0.5% (+1.5% y/y). The outstanding performance came from the manufacturing sector which showed a 1.3% increase in Q4 and +3.1% y/y helped by an increase in exports due to the lower value of sterling over the last year and robust economic growth in our main trade partners, the EU and US. It is also notable that there has been a progressive acceleration in total GDP growth during the year which gives ground for optimism looking forward into 2018.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak. Inflation fell to 3.0% in December.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was

also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out. The Brexit timetable and process is as follows:-

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50

- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

5.4 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.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%/No limit	6 months
UK Government gilts	UK sovereign rating	100%/No limit	12 months
UK Government Treasury bills	UK sovereign rating	100%/No limit	12 months
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	12 months
Term deposits with banks and building societies £30m with any one banking group or institution	Blue } Orange } Red } Green } No Colour	£15m £30m	12 months 12 months 6 months 100 days Not for use

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

5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) The 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.

(iii) The Joint Independent Audit Committee responsible for scrutiny

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

5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) 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.

PLEASE COMPLETE AND APPEND THE FOLLOWING TABLE TO ALL REPORTS THAT REQUIRE A DECISION FROM THE COMMISSIONER

This matrix provides a simple check list for the things you need to have considered within your report. If there are no implications please state

I have informed and sought advice from HR, Legal, Finance, OPCC officer(s) etc. prior to submitting this report for official comments	Legal Advice has not been sought from the Head of Legal Services as the TMSS reflects previous decisions and is supported by information from external consultants Link Asset Services in terms of the relevant legislation..
Is this report proposing an amendment to the budget?	The costs can be met form within the approved budget included within the MTRS.
Value for money considerations have been accounted for within the report	The Treasury Team manage the function to achieve the best return on investment in line with the risk appetite and also to secure loans at the most advantageous rates.
The report is approved by the relevant Chief Officer	The report has been prepared by the Deputy Chief Executive and Treasurer.
I have included any procurement/commercial issues/implications within the report	There are no direct procurement transactions as the treasury management function relies on operations with approved brokers in the money markets.
I have liaised with Corporate Communications on any communications issues	There are no communications issues as this represents day normal day to day activities.
I have completed an Equalities Impact Assessment and the outcomes are included within the report	There are no equalities issues arising from the report.
I have included any equalities, diversity and or human rights implications within the report	There are no equalities issues arising from the report.
Any Health and Safety implications are included within the report	There are no health and safety issues arising from the report.
I have included information about how this report contributes to the delivery of the Commissioner's Police and Crime Plan	The report includes information on how the service contributes to the delivery of the Police and Crime Plan.

