Decision No 2013/40

REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

REPORT BY: LISA KITTO, CHIEF FINANCE OFFICER

DATE: 19 February 2014

TITLE: TREASURY MANAGEMENT POLICY AND STRATEGY 2014/15

Appendix A refers

EXECUTIVE SUMMARY

This report outlines the proposed Treasury Management Policy Framework for 2014/15 as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2011). It includes the Police and Crime Commissioner's borrowing and investment strategies, together with the treasury management prudential indicators which seek to ensure that the Commissioner's borrowing levels remain both sustainable and affordable.

RECOMMENDATION

The Police and Crime Commissioner is recommended to approve the Treasury Management Strategy for 2014/15 and the Treasury Policy as set out at Appendix A.

Decision taken by the Police and Crime Commissioner for Lancashire:

Original decision, as set out in the attached report, approved without amendment (please delete as appropriate)	**YES**	**NO**

Original decision required to be amended and decision as detailed below:
The reasons for the amended decision are as detailed below:

Police and Crime Commissioner: Comments

DECLARATIONS OF INTEREST

The PCC is asked to consider any personal / prejudicial interests he may have to disclose in relation to the matter under consideration in accordance with the law, the Nolan Principles and the Code of Conduct.

STATEMENT OF COMPLIANCE

The recommendations are made further to legal advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation.

Signed: **Police and Crime Commissioner** **Date:**	**Signed:** **Chief Officer:** **Date:**

Signed: **Chief Constable** **Date:**	**Signed:** **Chief Finance Officer:** **Date:**

1. Background

Treasury management is defined as "The management of the authority'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."

In February 2012 The Police and Crime Commissioner adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the approval of a treasury management strategy before the start of each financial year. As a Local Authority the Police and Crime Commissioner for Lancashire ("the Commissioner") is also bound by the treasury management framework expressed within the code and therefore the requirements of the code must be met by Police and Crime Commissioners.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires Authorities, including police and crime Commissioners, to approve an investment strategy before the start of each financial year.

2. Statutory requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Commissioner to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Commissioner's capital investment plans are affordable, prudent and sustainable.

This report fulfils the Commissioner's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

3. CIPFA requirements

The primary requirements of the CIPFA Code are as follows-

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commissioner's treasury management activities, the current version is shown at Appendix 1.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives.

- The production 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.

- Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

4. Treasury Management Strategy for 2014/15

This Strategy Statement has been prepared in accordance with the Code of Practice (2011). In accordance with the code, the Treasury Management Strategy will be approved by the Commissioner before the start of the financial year. In addition to this the Commissioner will also receive a mid-year report and a final year-end outturn report. In addition there will be monitoring and review reports provided in the event of any changes to Treasury Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The following reporting arrangements will be adopted in accordance with the requirements of the revised Code: -

Area of Responsibility	Committee/ Officer	Frequency
Treasury Management Policy Statement	Police and Crime Commissioner	Annually before the start of the financial year.
Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval	Police and Crime Commissioner	Annually before the start of the financial year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report, scrutiny of performance	Police and Crime Commissioner	Mid year – 6 months
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Police and Crime Commissioner	As required
Annual Treasury Management Outturn Report	Police and Crime Commissioner	Annually by 30 September
Treasury Management Monitoring Reports	Chief Finance Officer	Quarterly
Treasury Management Practices	Chief Finance Officer	Annually

In setting the Treasury Management Strategy, the following factors have been taken into account; economic forecasts, the level of the approved Capital Programme and the current structure of the Commissioner's debt portfolio. It covers the following aspects of the Treasury Management function:-

- Prudential Indicators which will provide a controlling framework for treasury management activities.
- Long-term debt outstanding;
- Prospects for interest rates;
- The Borrowing Strategy;
- The Investment Strategy;
- Policy on borrowing in advance of need.

4.1 Economic Context

The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates.

Unemployment was 7.4% in October 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. The County Council's treasury advisors Arlingclose Ltd forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a variable net asset value basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

4.2 Current Treasury Portfolio Position

The current estimate of the Commissioner's Treasury Portfolio at the beginning of the financial year 2014/15 is:	Principal £000	%
DEBT		
Fixed rate loans from PWLB	20,154	100
Variable rate loans	0	0
Total debt	**20,154**	
INVESTMENTS		
Variable rate investments in the County Council's General County Fund estimated for 31/3/2014 @ 0.7%	8,500	
Fixed Loan to Lancashire County Council matures 30/6/14 @ 0.76%	10,000	
Total investments	**18,500**	

The level of investments represents the Commissioner's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is net borrowing position of £1.654m estimated at the end of financial year 2013-14.

4.3 Borrowing Requirement, Strategy and Prospects for Interest Rates

The following table shows the total borrowing requirement for the current and the next three years.

The Commissioner has not borrowed for capital purposes since 2007, preferring instead to fund capital expenditure and maturing borrowing from internal resources.

The total amount of this 'internal borrowing' is represented by the borrowing requirement which is being carried forward each year. As at 31st March 2013 this figure was £17.954m and is the major component of the 2013/14 borrowing requirement shown below. Should this borrowing not be taken before 31st March 2014, it will be again be carried forward, which will make the 2014/15 borrowing requirement £21,682.

	2013/14 Revised £000	2014/15 £000	2015/16 £000	2016/17 £000
Capital Programme Expenditure	**8,830**	**15,262**	**18,835**	**13,075**
Financed by:				
Capital Receipts	3,057	3,813	0	2,102
Grants and Contributions	2,565	3,793	2,770	2,225
Revenue Contributions	3,208	3,236	5,640	5,623
Borrowing	**0**	**4,420**	**10,425**	**3,125**
Add Maturing Debt to be replaced:				
Long Term PWLB	1,000	1,000	500	500
Previous Year Borrowing Requirement brought forward	17,954			
Less Statutory Charge to Revenue	(1,366)	(1,326)	(1,288)	(1,252)
Total Borrowing Requirement	**17,588**	**4,094**	**9,637**	**2,373**

Prospects for Interest Rates and Market Liquidity

Interest Rate Forecast

Although under the current circumstances further borrowing is unlikely, the Commissioner will continue to monitor the prevailing and forecast interest rate situation. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to Lancashire County Council.

Bank Rate is forecast to remain flat until late 2016 with the risk to the upside (i.e. rates being higher) being are weighted more heavily towards the end of the forecast horizon. Gilt yields are expected to rise over the forecast period with medium and long-dated gilts expected to rise by between 0.7% and 1.1%.

The latest forecast provided by Arlingclose Ltd is shown in the table below:

	Bank Rate	3 Month LIBID	12 Month LIBID	5 year Gilt Yield	10 year Gilt Yield	25 year Gilt Yield	50 year Gilt Yield
Mar 14	0.50	0.45	0.90	1.45	2.55	3.25	3.45
Jun 14	0.50	0.45	0.95	1.50	2.60	3.30	3.50
Sep 14	0.50	0.50	0.95	1.55	2.65	3.35	3.55
Dec 14	0.50	0.55	0.95	1.60	2.70	3.40	3.60
Mar 15	0.50	0.65	1.00	1.65	2.75	3.45	3.65
Jun 15	0.50	0.75	1.05	1.70	2.80	3.50	3.70
Sep 15	0.50	0.75	1.10	1.75	2.85	3.55	3.75
Dec 15	0.50	0.75	1.15	1.85	2.90	3.65	3.80
Mar 16	0.50	0.75	1.20	1.95	3.00	3.75	3.85
Jun 16	0.50	0.75	1.25	2.10	3.10	3.85	3.95
Sep 16	0.50	0.80	1.30	2.30	3.30	4.05	4.05
Dec 16	0.50	0.80	1.40	2.50	3.50	4.15	4.15
Mar 17	0.50	0.80	1.40	2.50	3.50	4.15	4.15

In the above table 'bank rate' refers to the policy rate of the Bank of England.
'LIBID' is the London Interbank bid rate and can be used as a proxy for short term market interest rates. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long term interest rates. The Commissioner can borrow at 80 basis points above the gilt yield, so for example the current fixed interest rate to borrow PWLB money for 10 years would be 3.35%.

This forecast has been based on the following underlying assumptions:

- UK Growth continues to strengthen with the service sector remaining the main driver of growth, boosted by a contribution from construction.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again. The MPC will not hesitate to use regulatory tools to deal with emerging risks and will only tighten policy when it is convinced about the sustained durability of economic growth.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.

In view of the above forecast the Commissioner's borrowing strategy will be based upon the following information:-

- The UK remains in a gradually recovering but still relatively slow growth situation and with a tight fiscal and loose monetary policy approach it could be 2017 before official UK interest rates rise. Gilt yields are projected on an upward path through the medium term.

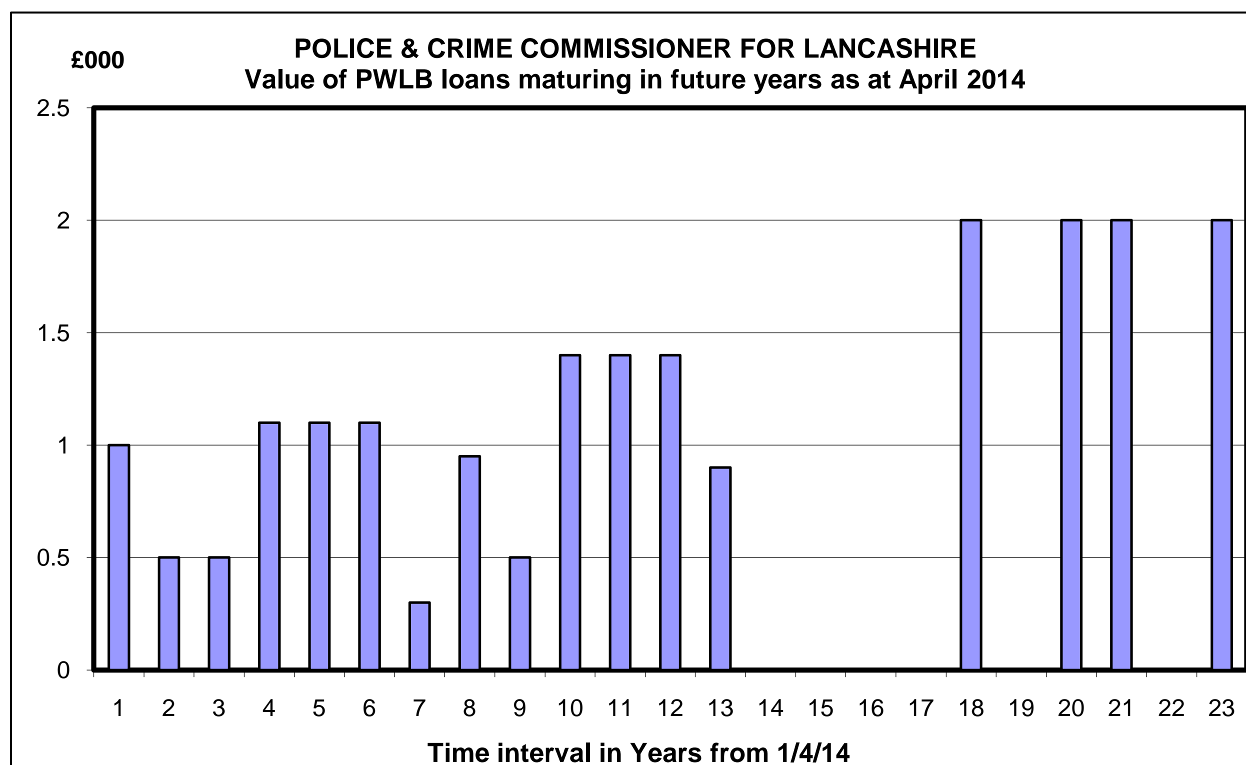
However the recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

- If it were 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.

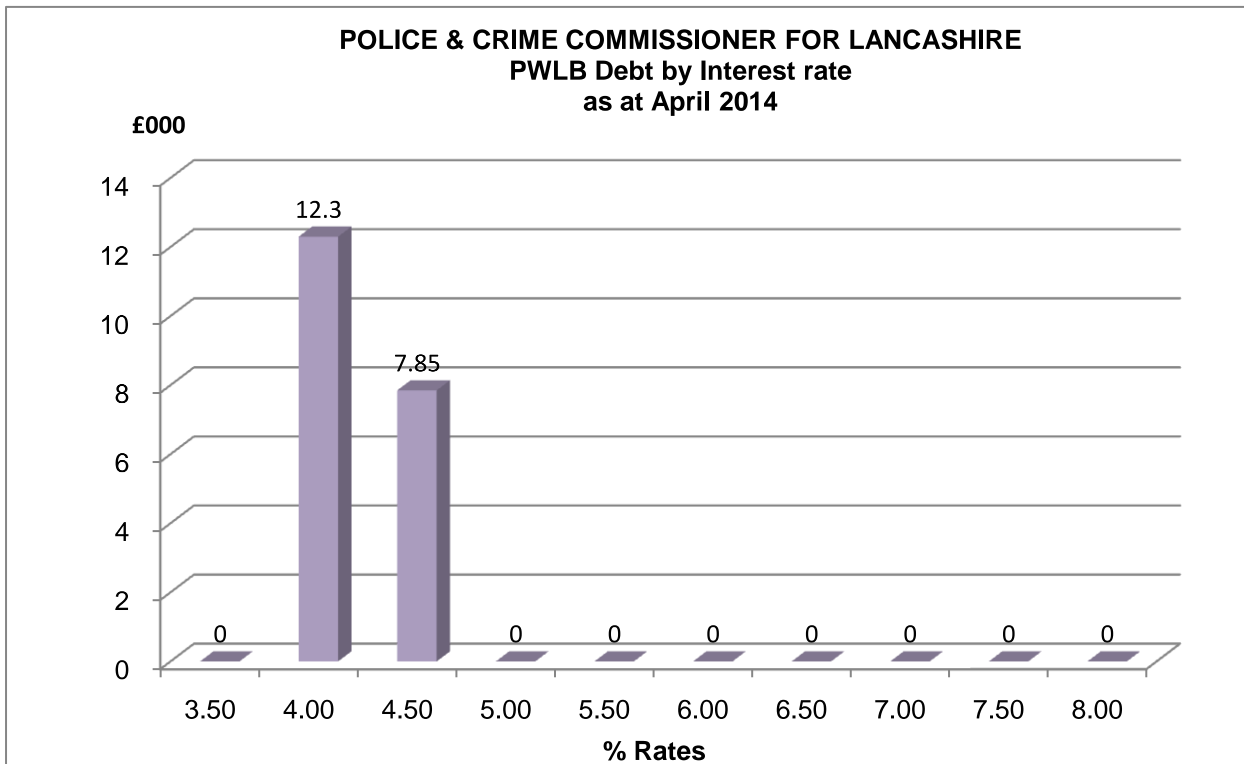
- If it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

4.3.1 Borrowing Strategy

The chart below shows the current maturity profile of the Commissioner's borrowings.



The chart below shows the same borrowings analysed by interest rate.



The cheapest borrowing at present is internal borrowing facilitated by running down cash balances and foregoing interest earned on investments at historically low rates - this is the policy the Commissioner has been pursuing for a number of years, funding capital expenditure and paying down debt maturities from existing balances. The immediate future is likely to see a continuation of this policy.

However, whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. In addition the Authority may borrow short term loans to cover unexpected cash flow shortages.

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

- Public Works Loan Board
- UK local authorities
- any institution approved for investments
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds

In the past the Authority has raised all of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Chief Finance Officer, in combination with the treasury management team reviews options for debt restructuring on a regular basis. A recent review found that given the relatively favourable interest rates at which these have been taken out (below 5%) and the penalties associated with any early repayment, restructure is not considered financially viable at the present time. A better option for the immediate future is to utilise reserves to reduce the future borrowing requirement rather than repay debt.

Frequent discussions will continue to take place between the Chief Finance Officer and the Treasury Management Team to monitor this situation and any future decisions on debt financing will be put through the same rigorous cost and prudence analysis that external borrowing has traditionally gone through and will be reported to the Commissioner in due course.

4.3.2 Investment Strategy

The Commissioner will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are: -

(a) The security of capital and
(b) The liquidity of its investments.

The Commissioner will also aim to achieve the optimum return on his investments commensurate with proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.

At 31st December 2013 the Commissioner held £38.9m invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Commissioner's investment balance has ranged between £64.1m and £7.5m, and similar levels are expected to be maintained in the forthcoming year.

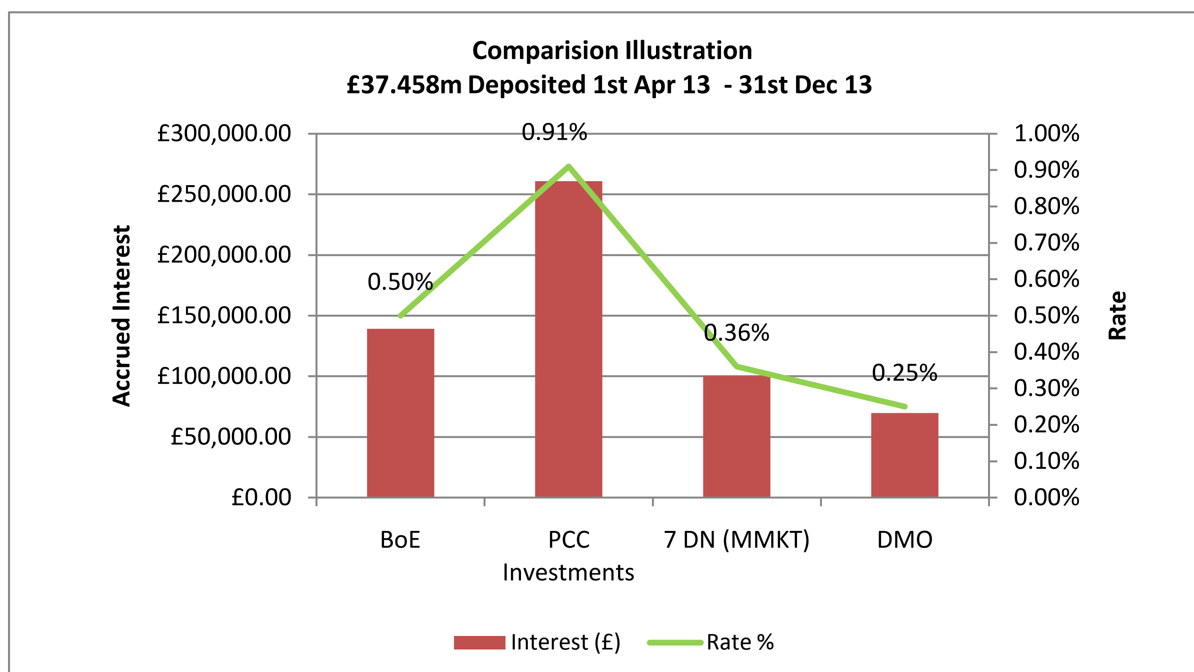
In line with the 2013-14 treasury management strategy which continues the policy of credit risk reduction following the financial crisis, Lancashire County Council (credit rating by Moodys AA2) is currently the counterparty for all of the Commissioner's investments

The Commissioner has access to a call (instant access) account, which pays 20 basis points (0.20%) above bank rate, this is currently 0.70%. Each working day the balance on the Current Account is invested in this to ensure that the interest received on surplus balances is maximised.

In addition the Commissioner for Lancashire is able to make specific investments with LCC at any time and currently has the following investment.

INV Number	Start Date	Maturity Date	Amount £M	Duration	Interest Rate	Interest on Maturity
PCC8	03/07/2013	30/06/2014	£10m	362 days	0.76%	£75,375

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2013 is £260k on an average balance of £42.016m at an average rate of 0.91%. The current interest rate is 0.71%.This compares favourably with the benchmark 7 day LIBID which averages 0.36% over the same period, and is illustrated in the chart below:



Both the CIPFA Code and the CLG Guidance require the Commissioner to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Commissioner's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

From 1 April 2014 The Commissioner will still be able to invest balances through the continuing call loan facility operated by Lancashire County Council, however, in an expansion of the investment policy in line with the gradually improving economic environment, the Commissioner may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Approved Investment Counterparties

Counterparty		**Cash limit**	**Time limit †**
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£5m each	5 years*
	AA+		3 years*
	AA		2 years*
	AA-		2 years*
Call Accounts with banks and other organisations with minimum AA- credit rating		£10m	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		unlimited	50 years**
Money market funds and other pooled funds		£5m each	n/a

* but no longer than 2 years in fixed-term deposits and other illiquid instruments

** but no longer than 5 years in fixed-term deposits and other illiquid instruments

Although bank deposits are once again allowed under this policy, utmost care must be taken in selecting appropriate counterparties. Investments may be made with any public or private sector organisations that meet the above credit rating criteria however, this strategy reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.
Money market funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Client. Funds that offer same-day liquidity and aim for a constant net asset value can be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period can be used for longer investment periods.

The legislative and regulatory background to treasury management activities requires the Commissioner to set out its use of “specified” and “non-specified” investments.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Commissioner defines “high credit quality” organisations as those having a credit rating of A+ or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Any investment not meeting the definition of a specified investment is classed as non-specified. The Commissioner does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

The Commissioner may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits where the Commissioner may demand repayment at any time (with or without notice),
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

The Commissioner prepares daily cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

The performance target on investments will remain as being above the average rate for 7 day notice money.

4.3.3 Policy on Borrowing in Advance of Need.

The Commissioner will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Commissioner can ensure the security of such funds and relationships.

In determining whether borrowing will be undertaken in advance of need the Commissioner will:-

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

5. Minimum Revenue Provision (MRP) Strategy

The Commissioner is required to make a Prudent charge to revenue in respect of capital expenditure financed from borrowing having regard to statutory guidance issued by the Secretary of State

Under the guidance debt which attracted Government support can use the Capital Financing Method. This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing provision has not already been made. This method of calculation

has been used by the Authority since the introduction of the MRP in 2004 and covers all the debt incurred before 2008/9 and still represents the majority of the outstanding debt.

Two methods of calculating the MRP for capital expenditure financed from unsupported borrowing were given in the guidance. These were the Asset Life Method or a depreciation charge. The Asset life method involves an equal charge each year based on the estimated useful life applicable to the nature of expenditure. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building. Using the Depreciation method charges would fluctuate in accordance with the valuation of the asset therefore the Asset Life Method has been adopted by the Commissioner

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Commissioner. However, the Commissioner reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Commissioner are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

In summary it is proposed that the Commissioner continues to use the Capital Financing Requirement option as applied to all supported borrowing.

The Commissioner currently applies the Asset Life method (Equal Charge approach) to capital expenditure financed by unsupported borrowing and it is proposed that this option also be continued.

The capital programme contains a scheme for the replacement of Blackpool police station which will involve an additional MRP charge to cover the financing of the new asset. This charge will be deferred, using current capital financing regulations, until the asset becomes fully operational in 2017/18, when savings will be realised from the restructure of the existing facilities.

6. Impact on the Revenue Budget

The budget for financing charges which reflects the implementation of this strategy included within the PCC's budget is as shown below:

	Revenue Budget 2013/14 **£'000**	**Revenue Budget 201415** **£'000**	**Revenue Budget 2015/16** **£'000**	**Revenue Budget 2016/17** **£'000**
Interest Paid	940	1,346	1,950	2,192
Minimum Revenue	1,366	1,326	1,288	1,252

Provision (MRP)				
Transferred Debt Charges	42	43	38	34
Interest Earned	(345)	(429)	(473)	(543)
Contribution to Reserve	300	300	300	300
Total	**2,303**	**2,586**	**3,103**	**3,235**

The Contribution to reserve is an annual contribution to the debt early repayment reserve.

These budgets reflect the following average interest rates:

	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Interest Paid	4.45	4.34	4.27	4.29
Interest Earned	0.79	0.79	0.8	0.9

7. Prudential Indicators for 2013/14 to 2016/17 in respect of the Police and Crime Commissioner's Treasury Management Activities.

In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, every local authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

The following table sets out the debt and investment-related indicators which provide the framework for the Commissioner's proposed borrowing and lending activities over the coming three years. These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators, but need to be reaffirmed and approved as part of this Treasury Management Strategy.

Treasury Management Prudential Indicators

	2013/14 (Revised)	**2014/15**	**2015/16**	**2016/17**
1. Adoption of the Revised CIPFA Code of Practice on Treasury Management	Adopted for all years in January 2012			
2. Authorised limit for external debt - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements.	**2013/14 (Revised)**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**
Borrowing	45,000	46,000	55,000	57,000
Other long-term liabilities	1,000	1,000	1,000	1,000
TOTAL	46,000	47,000	56,000	58,000

3. **Operational boundary for external debt** - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Commissioner's current plans.	**2013/14 (Revised)**	**2014/15**	**2015/16**	**2016/17**
	£000	**£000**	**£000**	**£000**
Borrowing	42,000	43,000	52,000	54,000
Other long-term liabilities	1,000	1,000	1,000	1,000
TOTAL	43,000	44,000	53,000	55,000

4. **Gross Debt / Capital Financing Requirement Indicator**

Capital Financing Requirement	38.014	41.108	50.245	52.117
Maximum Gross Debt	37.742	40.836	49.973	51.845
Debt to CFR	99%	99%	99%	99%

This is a measure of prudence recently introduced into the code. The fact that gross debt is less than the capital financing requirement is taken as an indicator borrowing has only been made for capital purposes.

5. **Upper limit for fixed interest rate exposure**	**2013/14 (Revised)**	**2014/15**	**2015/16**	**2016/17**
Upper limit of borrowing at fixed rates	100%	100%	100%	100%
Upper limit of investments at fixed rates	100%	100%	100%	100%

6. **Upper limit for variable rate exposure**	**2013/14 (Revised)**	**2014/15**	**2015/16**	**2016/17**
Upper limit of borrowing at variable rates	75%	75%	75%	75%
Upper limit of investments at variable rates	100%	100%	100%	100%

7. **Upper limit for total principal sums invested for over 364 days (**per maturity date as a percentage of total investments.**)**	75%	75%	75%	75%

8. **Maturity structure of Debt**	**Upper Limit %**	**Lower Limit %**
Under 12 months	50	-
12 months and within 24 months	50	-
24 months and within 5 years	50	-
5 years and within 10 years	80	-
10 years and above	90	25

9. **Affordability**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Ratio of financing costs to revenue stream	0.73%	0.85%	1.06%	1.14%
Estimate of impact of capital investment on Council Tax		£8.89	£13.03	£20.22
Estimate of impact of capital investment on Council Tax NET of revenue contributions		£0.83	£4.97	£6.17

10. **Prudence**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Gross Debt as % of capital financing requirement	99.28%	99.34%	99.46%	99.48%

8. Investment in Icelandic Banks.

At the time the Icelandic banks collapsed in October 2008, the County Council had an investment of £10.0m with Landsbanki. Under the treasury management strategy in operation at that time, the Authority's share of the deposit with Landsbanki was £0.668m.

Since then 4 distributions have been received, the most recent on 12th September 2013. These distributions total £355,441 and whilst the reminder of the balance is expected at some point in the future, the timing and amounts of future distributions is not known at this stage.

Decision Required

The Commissioner is asked to approve the treasury management strategy for 2014/15, including

a) Treasury management prudential indicators

b) The borrowing strategy

c) The investment strategy

d) The MRP strategy

e) To formally adopt the updated policy statement at Appendix A

Appendix A

Treasury Management Policy Statement

The Police and crime Commissioner's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition
The Police and Crime Commissioner defines its treasury management activities as: the management of the Commissioner'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.

Risk management
The Commissioner 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, and any financial instruments entered into to manage these risks.

Value for money
The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy
The Commissioner greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. However, short-term and variable rate loans may be borrowed to either offset short-term and variable rate investments or to produce revenue savings. The Commissioner will also constantly evaluate debt restructuring opportunities of the existing portfolio,

The Commissioner will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy
The Commissioner’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of services is an important, but secondary, objective.

The Commissioner will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations

with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.