Alliance Treasury Management Strategy 2015/16

Report of the Treasury

Recommendations

That:

a) the Treasury Management Strategy and Investment Strategy for 2015/16 be approved by the Police and Crime Commissioners for Warwickshire and West Mercia

b) the Prudential Indicators agreed as part of the respective budget settings (see **Appendices A(i) and A(ii)**) are noted;

c) the Commissioners require the Treasurer to ensure that net borrowing does not exceed the Prudential levels specified in **Appendix A**, taking into account current commitments, existing plans, and the proposals agreed in the budget reports;

d) the Commissioners delegate authority to the Treasurer to undertake all the activities listed in **Appendix E** of the report;

e) the Treasurer implements the Minimum Revenue Provision Policy as specified in **Appendix F**.

1 Introduction

Background

1.1 Treasury management is defined, in a local government context, as:

"The management of the local 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."

1.2 Each Commissioner 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 a low risk appetite, providing security of capital and sufficient liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet his 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 occasions, debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.

Statutory Requirements

1.4 Each Commissioner has a statutory obligation 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 Authority's capital investment plans are affordable, prudent and sustainable.

1.5 The Commissioners are required, therefore, to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the policies for managing their investments and for giving priority to the security and liquidity of those investments.

CIPFA Requirements

1.6 The Chartered Institute of Public Finance and Accountancy's (CIPFA) is responsible for publishing and maintaining the Code of Practice on Treasury Management with which the Commissioner is obliged to comply.

1.7 The primary requirements of the Code are as follows:

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives.
c. Receipt by the Commissioners 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.
d. Delegation by each Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
e. Delegation by each Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. In this respect the Commissioners have chosen to delegate this responsibility to the Joint Audit Committee

Treasury Management Strategy for 2015/16

1.8 The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the Treasurer's and the Force Treasury team (who undertake treasury management on behalf of the Commissioner) views on interest rates, supplemented with leading market forecasts provided by treasury advisers.

1.9 The strategy covers:

- Treasury limits for 2015/16 to 2017/18
- Prudential indicators (previously agreed in setting the budgets)
- Prospects for interest rates
- Borrowing strategy
- Debt rescheduling
- Annual investment strategy
- MRP strategy

2 Treasury Limits for 2015/16 to 2017/18

2.1 Each Commissioner is required to determine and keep under review how much he can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Commissioners must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires them to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in **Appendix A** of this report. Explanations of the terminology employed in the Appendix can be found in **Appendix B.**

2.4 The Commissioners' current treasury portfolios are as follows:

Warwickshire

Treasury Portfolio at 31 March 2015	Principal £m	Average Rate %
Fixed Rate Funding		
Public Works Loans Board	**16.7**	**4.68**
Investments		
In house	**38.5**	**0.41**
Externally managed	**0.0**	**0.00**
Net Debt	**(21.8)**	

West Mercia

Treasury Portfolio at 31 March 2015	Principal £m	Average Rate %
Fixed Rate Funding		
Public Works Loans Board	**10.0**	**4.44**
Investments		
In house	**40.0**	**0.51**
Externally managed	**0.0**	**0.00**
Net Debt	**(30.0)**	

2.5 The Commissioners' borrowing requirements are as follows:

Warwickshire

Borrowing Requirement	14/15 Actual £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
New borrowing	0.0	2.3	1.1	0.0	0.1	0.5
Replacement borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**2.3**	**1.1**	**0.0**	**0.1**	**0.5**

West Mercia

Borrowing Requirement	14/15 Actual £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
New borrowing	0.0	4.8	7.9	3.9	0.1	0.3
Replacement borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**4.8**	**7.9**	**3.9**	**0.1**	**0.3**

3 Prudential Indicators for 2015/16 to 2017/18

3.1 Prudential and Treasury Indicators (**Appendix A** to this report) are relevant for the purposes of setting an integrated treasury management strategy.

3.2 The indicators are based on the currently agreed capital programme.

4 Prospects for Interest Rates

4.1 The prospects for interest rates are key to the Treasury Management Strategy. Set out in the table below are projections for the Bank Rate from Arlingclose.

Bank Rate Forecast

Date	Bank Rate
01/06/2015	0.50
01/09/2015	0.50
01/12/2015	0.50
01/03/2016	0.50
01/06/2016	0.75
01/09/2016	0.75
01/12/2016	1.00
01/03/2017	1.00
01/06/2017	1.25
01/09/2017	1.25
01/12/2017	1.50
01/03/2018	1.50
01/06/2018	1.50

Credit outlook

4.2 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 VNAV (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.

Interest rate forecast:

4.3 Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon

5 Borrowing Strategy

5.1 Both Commissioners are 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 Commissioner'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 high. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Treasury Team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the Commissioner at the earliest available opportunity.

5.2 The Arlingclose forecasts for the PWLB new borrowing rate are as follows:

Date	PWLB Certainty Rate			
	5 yr	10 yr	20 yr	50 yr
01/06/2015	2.00	2.45	3.05	3.15
01/09/2015	2.05	2.50	3.05	3.15
01/12/2015	2.10	2.55	3.05	3.15
01/03/2016	2.15	2.60	3.15	3.25
01/06/2016	2.25	2.70	3.20	3.30
01/09/2016	2.35	2.80	3.25	3.35
01/12/2016	2.45	2.90	3.30	3.40
01/03/2017	2.55	3.00	3.40	3.50
01/06/2017	2.70	3.15	3.45	3.55
01/09/2017	2.80	3.25	3.50	3.60
01/12/2017	2.90	3.35	3.55	3.65
01/03/2018	2.95	3.40	3.60	3.70
01/06/2018	3.00	3.45	3.65	3.75

5.3 In view of the above forecast, the Commissioners' borrowing strategy will be based upon the following:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.
- Internal borrowing will be weighed against potential long term costs that will be incurred if market loans at long term rates are higher in future years.
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing, which will spread debt maturities away from a current concentration in longer dated debt.

In addition, it is important to note that the both Commissioners will seek to minimize their future borrowings by using revenue budget underspendings to defray borrowing where this is feasible and prudent.

5.4 In normal circumstances, the main sensitivities of the forecast are likely to be the two scenarios noted below. The Treasurer, in conjunction with the Director of Finance and the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- 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 reappraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Policy on borrowing in advance of need

5.5 The Commissioners 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 considered carefully to ensure value for money can be demonstrated and that the Commissioners can ensure the security of such funds.

5.6 In determining whether borrowing will be undertaken in advance of need, the Commissioners will:

- ensure that there is a clear link between the capital programme and 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;
- consider the impact of borrowing in advance of temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6 Debt Rescheduling

6.1 PWLB debt restructuring is now much less financially attractive than it used to be. Consideration is given to the large premiums incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing, although other market loans may be available as the source of replacement financing.

6.2 As short term borrowing rates will be considerably cheaper than longer term rates, there could be significant 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 their short term nature and the likely cost of refinancing those short term loans, once they mature, compared with the current rates of longer term debt in the existing debt portfolio.

6.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings and discounted cash flow savings;
- helping to fulfil the strategy outlined in Section 5 above; and
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

6.4 Consideration will also be given to identify if there is any residual potential left 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.

7 Annual Investment Strategy

Investment Policy

7.1 The Commissioners will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

7.2 The Commissioners' investment priorities are the security of capital and the liquidity of investments.

7.3 The Commissioners will also aim to achieve the optimum return on his investments, commensurate with proper levels of security and liquidity. The risk appetites of the Commissioners are extremely low in order to give overriding and absolute priority to the security of their investments.

7.4 In accordance with the above, and in order to minimise the risk to investments, the Commissioners have below stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list takes account of the ratings and watches published by all three ratings agencies, with a full understanding of what the ratings represent. Using information from Arlingclose, service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

7.5 Furthermore, the Commissioners' officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which the institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Commissioners' officers will engage with the advisors, Arlingclose, to monitor market pricing and overlay that information on top of the credit ratings.

7.6 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

7.7 Investment instruments identified for use in the financial year are listed in **Appendix C** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set and documented in discussion between the Treasury team and the Treasurer.

Creditworthiness Policy

7.8 The Commissioners have access, through the Force Treasury Team, to the creditworthiness service provided by Arlingclose. This service uses credit ratings from all three rating agencies, Fitch, Moodys and Standard and Poors.

7.9 Treasury officers do not rely solely on the current credit ratings of counterparties but also use the following as overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap spreads giving warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

7.10 In line with the last two years' approved strategies, the Commissioners will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as, at any point in time, one of the agencies may be very much more aggressive in giving low ratings than the other two agencies, as happened in 2012/13 with Moodys. This would therefore be unworkable and leave the Commissioner with few banks on his approved lending list.

7.11 All credit ratings will be monitored continuously. Through its use of services from Arlingclose, the Treasury team receives monthly credit ratings, supplemented by daily alerts of changes to ratings of all three agencies. If a downgrade results in the counterparty/investment scheme no longer meeting the Commissioner's minimum criteria, its further use as a new investment will be withdrawn immediately.

7.12 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data, broker intelligence/advice, the financial press and all other relevant information.

Investment Counterparty Selection Criteria

7.13 The Commissioners' investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities will be security first, liquidity second, then lastly return. Investment instruments identified for use in the financial year are listed in **Appendix C** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set and documented in discussion between the Treasury team and the Treasurer. In relation to Building Societies, the Commissioners take additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Force(s)'s deposits would be paid out in preference to retail depositors. The Commissioners will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

7.14 The Commissioners will ensure that they maintain a policy covering both the categories of investment types in which to invest, criteria for choosing investment counterparties with adequate security, and monitoring their security. Moreover, they will ensure they have sufficient liquidity in their investments. For this purpose they will follow procedures for determining the maximum periods for which funds may prudently be committed according to future cash flow requirements. The Treasurer will maintain a counterparty list in compliance with the stated criteria, providing an overall pool of counterparties considered to be very high quality which the Commissioner may use.

7.15 Credit rating information is supplied by Arlingclose, our treasury consultants, on all active counterparties that comply with the stated criteria. Any counterparty failing to meet the criteria will be deleted from the counterparty lending list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Country Limits

7.16 The Commissioners have determined that they will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix D**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment Strategy

7.17 The Commissioners have in-house managed funds that are mainly cash-flow derived and a core balance available for investment over a maximum one-year period. Accordingly, investments will be made with reference to the core balance and cash requirements, and the outlook for short-term interest rates, (i.e., rates for investments up to twelve months).

7.18 There is downside risk to the Arlingclose interest rate forecasts if recovery from the recession proves to be weaker and slower than currently expected. The Commissioner will avoid locking into longer term deals while investment rates are down at historically low levels, unless exceptionally attractive rates are available which make longer term deals worthwhile.

7.19 For its cash flow generated balances, the Commissioners will seek to utilise their business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of Year Investment Report

7.20 At the end of the financial year, the Commissioners will report on their investment activity as part of an Annual Treasury Report.

Policy on the Use of External Service Providers

7.21 The Commissioners use Arlingclose as their external treasury management advisers via the Force's Treasury team. The Commissioners recognise 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.

Role of the Section 151 Officer

7.22 Please see **Appendix E**.

8 Minimum Revenue Provision

8.1 The Authority's policy on Minimum Revenue Provision (MRP) is shown in **Appendix F**.

Report of the Treasurer	Dave Clarke

APPENDICES

A. Prudential and Treasury Indicators

B. Prudential Term Explanations

C. Schedule of Specified and Non Specified Investments

D. Approved Countries for Investments

E. The Treasury Management Role of the S151 (Responsible) Officer: Head of Finance

F. Minimum Revenue Provision

Appendix A(i)

Warwickshire Prudential and Treasury Indicators

1. AFFORDABILITY PRUDENTIAL INDICATORS	2014/15 Estimate	2014/15 Forecast Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	12,209	3,742	9,065	7,492	3,663
	%	**%**	**%**	**%**	**%**
Ratio of financing costs to net revenue stream	2.61	2.36	2.44	3.66	4.23
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In Year borrowing requirement					
- in year borrowing requirement	10,629	(900)	5,728	3,895	(1,808)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In year Capital Financing Requirement	5,168	(1,374)	5,728	3,703	(2,203)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement 31 March	29,906	22,678	28,406	32,109	29,906
	£	**£**	**£**	**£**	**£**
Affordable Borrowing Limit					
Increase per council tax payer					
- Position as agreed at March 2014 by the PCC	£0.03		£1.25	£2.32	N/A
- Updated position of the current Capital Programme		(£0.56)	£0.11	£2.21	£1.19
2. TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2014/15 Estimate**		**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£'000		**£'000**	**£'000**	**£'000**
Authorised limit for external debt					
- Borrowing	40,000		40,000	40,000	40,000
	£'000		**£'000**	**£'000**	**£'000**
Operational boundary for external debt					
- Borrowing	30,000		30,000	30,000	30,000
Upper limit for fixed rate interest exposure					
- net principal re fixed rate borrowing / investments	£40m		£40m	£40m	£40m
Upper limit for variable rate exposure					
- net principal re variable rate borrowing / investments	£5m		£5m	£5m	£5m

Maturity structure of new fixed rate borrowing during 2013/14	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix A(ii)

West Mercia Prudential and Treasury Indicators

1. AFFORDABILITY PRUDENTIAL INDICATORS	2014/15 Estimate	2014/15 Forecast Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	17,791	10,554	17,550	15,301	10,769
	%	**%**	**%**	**%**	**%**
Ratio of financing costs to net revenue stream	1.81	1.04	1.12	2.51	3.16
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In Year borrowing requirement					
- in year borrowing requirement	21,104	0	13,587	12,229	4,710
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In year Capital Financing Requirement	8,810	(1,703)	12,646	11,416	3,640
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement 31 March	51,257	33,891	46,537	57,953	61,593
	£	**£**	**£**	**£**	**£**
Affordable Borrowing Limit					
Increase per council tax payer					
- Position as agreed at March 2014 by the PCC	£0.91		£1.20	£1.09	N/A
- Updated position of the current Capital Programme		(£0.44)	£0.14	£1.69	£1.52
2. TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2014/15 Estimate**		**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£'000		**£'000**	**£'000**	**£'000**
Authorised limit for external debt					
- Borrowing	40,000		40,000	50,000	60,000
	£'000		**£'000**	**£'000**	**£'000**
Operational boundary for external debt					
- Borrowing	30,000		30,000	40,000	50,000
Upper limit for fixed rate interest exposure					
- net principal re fixed rate borrowing / investments	£40m		£40m	£50m	£60m
Upper limit for variable rate exposure					
- net principal re variable rate borrowing / investments	£5m		£5m	£5m	£5m

Maturity structure of new fixed rate borrowing during 2013/14	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

PRUDENTIAL INDICATORS

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Net Borrowing

Net borrowing refers to the Authority's total external borrowing.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cashflow and accord with the approved treasury management policy statement and practices. The Authorised limit is based on the estimate of most likely prudent, but not necessarily the worst-case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposures

This means that the Authority will manage fixed interest rate exposures within the ranges and variable interest rate exposures within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.

Appendix C

Counterparty		Cash limit	Time limit †
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's	AAA AA+ AA AA- A+ A A-	£10m each	1 year
The respect Force(s)'s current account bank HSBC / Lloyds if it fails to meet the above criteria		£1m	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£5m	1 years**
UK Building Societies with credit ratings		£3m	1 year
UK Building Societies without credit ratings		£1m each	6 months
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's	BBB+	£2.5m	3 months

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This 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.

Approved Countries for Investments (All AAA or AA+)

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- UK
- France
- Hong Kong
- USA

Appendix E

The Treasury Management Role of the S151 (Responsible) Officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Reviewing the list of approved counterparties in accordance with recommendations from appointed treasury advisers (currently Arlingclose)
- 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.

Appendix F

Minimum Revenue Provision

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets, which have a life expectancy of more than one year, e.g., buildings, vehicles, machinery, etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

2. Statutory Duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance in February 2008, which requires that a Statement on the Commissioner's policy for its annual MRP should be agreed before the start of the financial year to which the provision will relate.

The Commissioner is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made with an overriding recommendation that the Commissioner should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to "have regard" to the guidance therefore means that:

a. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which the Commissioner may consider his MRP to be prudent.

b. It is the responsibility of each Commissioner to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

4. PCC Policy

The Minimum Revenue Provision will be based on the Asset Life Method (Equal Installment Method).

For budget purposes the MRP will be linked to the expected life cycle of each capital project.