Warwickshire and West Mercia Police and Crime Commissioners Treasury Management Strategy 2017/18

Report of the Treasurer

Recommendations

That:

a) the Treasury Management Strategy and Investment Strategy for 2017/18 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 and B** are noted;

c) the Commissioners require the Treasurer to ensure that net borrowing does not exceed the Prudential levels specified in **Appendices A and B,** 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 C** of the report;

e) the Treasurer implements the Minimum Revenue Provision Policy as specified in **Appendix A and B**.

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 under the Local Government Act 2003 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 Commissioners' 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

1.8 The suggested strategy for 2017/18 in respect of the following aspects of the treasury management function is based upon the Treasurer's and the Force Accounting and Financial Services 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 2017/18 to 2020/21
- Prudential indicators
- External and local content
- Borrowing strategy
- Debt rescheduling
- Annual investment strategy
- Minimum Revenue Provision (MRP) strategy

1.10 In accordance with the CLG Guidance, the Commissioners will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Commissioners capital programme or in the level of its investment balance.

2 Treasury Limits for 2017/18 to 2020/21

2.1 Each Commissioner is required to determine and keep under review how much they 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 Local Government Act 2003.

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 Termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing consists of 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 **Appendices A and B** of this report.

2.4 The Commissioners' current treasury portfolios are as follows:

Warwickshire

Treasury Portfolio at 31st January 2017	**Principal £m**	**Average Rate %**
Fixed Rate Funding Public Works Loans Board	14.9	5.0
Investments In House Externally Managed	26.5 0.0	0.33 0.00
Net Debt	(11.6)	

West Mercia

Treasury Portfolio at 31st January 2017	Principal £m	Average Rate %
Fixed Rate Funding Public Works Loans Board	10.0	4.44
Investments In House Externally Managed	29.7 0.0	0.50 0.00
Net Debt	(19.7)	

2.5 The Commissioners' borrowing requirements are as follows:

Warwickshire

Borrowing Requirement	15/16 Actual £m	16/7 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
New borrowing *	0.0	0.0	4.5	4.8	4.1	5.4
Replacement borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**4.5**	**4.8**	**4.1**	**5.4**

West Mercia

Borrowing Requirement	15/16 Actual £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
New borrowing	0.0	0.0	14.2	9.4	8.1	12.1
Replacement borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**14.2**	**9.4**	**8.1**	**12.1**

3 Prudential Indicators for 2017/18 to 2019/20

3.1 Prudential and Treasury Indicators (Appendices A & B to this report) are relevant for the purpose of setting an integrated treasury management strategy.

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

4 The External Context

4.1 Economic background:

The major external influence on the Commissioners treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive both current inflation and future inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, (currently 1.8%) for the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market had dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in 2017 0.25% increase Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them. The French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

4.2 Credit Outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland, and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the both Commissioners; returns from cash deposits however continue to fall.

4.3 Interest Rate Forecast

The Commissioners treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.34% for Warwickshire and 0.35% for West Mercia.

5 Local Context in Warwickshire and West Mercia

5.1 Warwickshire

It is estimated that at the 31st March 2017 that Warwickshire will hold £14.9m of borrowing and £21.7m of investments. This is set out in further detail at **Appendix A**. Forecast changes in these sums are shown in the balance sheet analysis in table 5.1.

Table 5.1 Balance Sheet Summary and Forecast

Warwickshire	**31.03.16 Actual £m**	**31.03.17 Estimate £m**	**31.03.18 Forecast £m**	**31.03.19 Forecast £m**	**31.03.20 Forecast £m**
Borrowing CFR	21.8	20.5	23.7	27.3	30.0
Less: External Borrowing**	15.8	14.9	18.6	22.4	25.5
Internal (over) Borrowing	6.0	5.6	5.1	4.9	4.5
Less: Usable Reserves	(33.3)	(27.1)	(16.1)	(11.0)	(8.6)
Less: Working Capital	0.7	(0.2)	(0.1)	(0.1)	(0.3)
Investments	26.6	21.7	11.1	6.2	4.0

** Shows only loans to which the Commissioner is committed and includes optional refinancing.

5.2 West Mercia

It is estimated that at the 31st March 2017 that West Mercia will hold £10m of borrowing and £29.9m of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 5.2.

Table 5.2 Balance Sheet Summary and Forecast

West Mercia	**31.03.16 Actual £m**	**31.03.17 Estimate £m**	**31.03.18 Forecast £m**	**31.03.19 Forecast £m**	**31.03.20 Forecast £m**
Borrowing CFR	32.2	30.7	43.4	50.8	56.4
Less: External Borrowing**	10.0	10.0	24.2	33.6	41.7
Internal (over) Borrowing	22.2	20.7	19.2	17.2	14.7
Less: Usable Reserves	(65.7)	(52.5)	(31.0)	(23.1)	(20.0)
Less: Working Capital	(3.1)	1.9	1.9	1.9	1.9
Investments	46.6	29.9	9.9	4.0	3.4

** shows only loans to which the Commissioner is committed and excludes optional refinancing.

5.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Commissioners' current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The capital expenditure plans imply that there is a need to borrow over the forecast period. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget and capital expenditure.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Commissioners total debt should be lower than its highest CFR forecast.

6 Borrowing Strategy

6.1 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 Commissioners reserves, balances and cash flow has been used as a temporary measure. Warwickshire as at 31st March 2016 will have £6.0m of internal borrowing and West Mercia £22.2m. 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 2017/18 treasury operations. From 2017/18 onwards the Commissioners intend to fund a significant proportion of the capital programme from reserves, reducing the need for long term borrowing and minimising future capital financing costs. 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 Commissioners at the earliest available opportunity.

6.2 Warwickshire currently holds £14.9 million of loans. The balance sheet forecast in table 5.1 shows that there is a borrowing requirement for 2017/18 of £3.7m. The Commissioner may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £40m.

West Mercia currently holds £10.0 million of loans. The balance sheet forecast in table 5.2 shows that there is a borrowing requirement for 2017/18 of £14.2m. The Commissioner may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £60m.

6.3 The Commissioners' chief objective when borrowing money will always be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Commissioners' long-term plans change is a secondary objective.

6.4 Given the significant cuts to public expenditure and in particular to local government funding, each Commissioner's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, each Commissioner is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and/or short-term 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 modestly. Arlingclose will assist each Commissioner with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, each Commissioner may arrange forward starting loans during 2107/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

6.5 The Arlingclose forecasts for the PWLB new borrowing rates are as follows:

Date	PWLB Certainty Rate			
	5 yr	10yr	20yr	50yr
01/03/2017	1.40	1.90	2.45	2.35
01/06/2017	1.30	1.85	2.35	2.25
01/09/2017	1.25	1.75	2.30	2.20
01/12/2017	1.25	1.75	2.30	2.20
01/03/2018	1.30	1.75	2.30	2.20
01/06/2018	1.30	1.75	2.30	2.20
01/09/2018	1.30	1.75	2.30	2.20
01/12/2018	1.35	1.80	2.35	2.25
01/03/2019	1.40	1.85	2.40	2.30
01/06/2019	1.45	1.90	2.45	2.35
01/09/2019	1.50	1.95	2.50	2.40
01/12/2019	1.55	2.00	2.55	2.45
01/03/2020	1.60	2.05	2.60	2.50

6.6 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.
- PWBL 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 both Commissioners' will seek to minimise their future borrowings by using revenue budget underspends to defray borrowing where this is feasible and prudent. The Commissioners will also consider further minimising future borrowing during 2017/18 by re-profiling the planned use of reserves in the Medium Term Financial Plan.

6.7 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 the 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.

6.8 Policy on borrowing in advance of need

The Commissioners will not borrow more than or in advance of its needs purely in order 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.

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 profits 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.

7. Debt Rescheduling

7.1 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.

7.2 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.

7.3 The reason 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)

7.4 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.

8. Annual Investment Strategy

Investment Policy

8.1 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 ("CIPFA TM Code").

Both the CIPFA Code and the CLG Guidance requires each commissioner to invest their funds prudently, and to have regard to the security and liquidity of their investments before seeking the highest rate of return, or yield. The Commissioners objectives when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Commissioner will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

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

8.3 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.

8.4 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.

8.5 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.

8.6 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.

8.7 Given the increasing risk and falling returns from short-term unsecured bank investments, each Commissioner may further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £22m that Warwickshire holds and £30m that West Mercia holds that is available for longer-term investment. All of the Commissioners' surplus cash remains invested in short-term unsecured bank deposits. This diversification will represent change in a continuation of the new strategy adopted in 2015/16 and 2016/17.

8.8 The Commissioner may invest its surplus funds with any of the counterparty types in Table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 8.8 Approved Investment Counterparts and Limits.

<u>Approved Counterparty Limits for Warwickshire</u>

Credit Rating	**Banks Unsecured and Secured**	**Government (Incl. Local Authorities)**	**Registered Providers (Housing Associations)**
UK Govt.	N/A	£ Unlimited 50 years	N/A
AAA, AA+, AA, AA-	£2m 3 Years	£3m 3 Years	£2m 3 Years
A+	£2m 2 Years	£2m 2 Years	£2m 2 Years
A	£2m 13 Months	£2m 2 Years	£2m 2 Years
A-	£2m 6 Months	£2m 2 Years	£2m 2 Years
BBB+	£1m 3 Months	£1m 1 Year	£1m 1 Year
UK Building Societies without Credit Ratings	£1m 6 Months	N/A	N/A
UK Local Authorities (and PCCs) without credit ratings	N/A	£3m 3 Years	N/A

Money Market Funds	£2M Per Fund		
Current Account Bank (Lloyds) if the credit rating is A- or above	£5m 1 Year	N/A	N/A
Current Account Bank (Lloyds) if it fails to meet the above criteria	£1m Next Working Day	N/A	N/A

<u>Approved Counterparty Limits for West Mercia</u>

The Commissioner for West Mercia may therefore invest surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured and Secured	Government (Incl. Local Authorities)	Registered Providers (Housing Associations)
UK Govt.	N/A	£ Unlimited 50 years	N/A
AAA, AA+, AA, AA-	£3m 3 Years	£5m 3 Years	£3m 3 Years
A+	£3m 2 Years	£3m 2 Years	£3m 2 Years
A	£3m 13 Months	£3m 2 Years	£3m 2 Years
A-	£3m 6 Months	£3m 2 Years	£3m 2 Years
BBB+	£2m 3 Months	£2m 1 Year	£2m 1 Year
UK Building Societies without Credit Ratings	£2m 6 Months	N/A	N/A
UK Local Authorities (and) PCCs without credit ratings	N/A	£5m 3 Years	N/A
Money Market Funds	£3m Per Fund		
Current Account Bank (Lloyds) if the credit rating is A- or above	£5m 1 Year	N/A	N/A
Current Account Bank (Lloyds) if it fails to meet the above criteria	£1m Next Working Day	N/A	N/A

This table must be read in conjunction with the notes below.

a) Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, or otherwise the counterparty credit ratting is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

b) Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

c) Covered bonds, reverse purchase agreements and other collaterised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cashlimit for secured investments.

d) Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

e) Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known ad Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

f) Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

g) Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be reviewed regularly.

8.9 Warwickshire is expected to have £22m invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, Warwickshire investment balance is expected to range between £29 and £43 million, and similar levels are expected to be maintained in the forthcoming year.

West Mercia is expected to have £30m invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, West Mercia investment balance has ranged between £46 and £66 million, and similar levels are expected to be maintained in the forthcoming year.

8.10 Risk Assessment and Credit Ratings:

Credit ratings are obtained and monitored by the Commissioners treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The Commissioners understands that credit ratings are good, but not perfect, predictors of investment default. As stated, also full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measurers. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. It these restrictions mean the insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

8.11 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" (as per approved counter party limits).

8.12 Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Commissioners do 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 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 Commissioners will now set separate limits for Warwickshire and West Mercia. Limits on non-specified investments are shown in the table below.

	Warwickshire Cash Limit	**West Mercia Cash Limit**
Total long-term investments	£5m	£10m
Total investments without credit ratings or rated below A-	£5m	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£0m	£0m
Total non specified investments	£10m	£20m

9. Investment Limits

9.1 The Commissioner for Warwickshire's revenue reserves available to cover investment losses are £27.1m on 31st March 2017. In order that no more than 10% of available reserves will be put at risk in the case of a single default the maximum that will be lent to any one organisation other than the UK government will be £3m.

The Commissioner for West Mercia's revenue reserves available to cover investment losses are £52.5m on 31st March 2017. In order that no more than 10% of available reserves will be put at risk in the case of a single default the maximum that will be lent to any one organisation other than the UK government will be £5m.

9.2 A group of banks under the same ownership will be treated as a single organisation for limit purposes.

9.3 Limits will also be placed on fund managers and investments in industry sectors as below:

	Warwickshire Cash Limit	**West Mercia Cash Limit**

Any single organisation, except the UK Central Government	£3m	£5m
UK Central Government	Unlimited	Unlimited
Any group of organisations under the same ownership	£3m per group	£5m per group
Registered Providers (Housing Associations)	£6m	£12m
Unsecured Investments with Building Societies	£6m	£12m
Money Market Funds	£6m	£12m
Foreign Countries	£3m	£5m

9.4 Liquidity Management

The Commissioners are currently developing their cash flow management and forecasting arrangements to determine the maximum period for with funds may prudently be committed. They are considering the purchase of purpose-built cash flow forecasting software. Current forecasts are compiled on a prudent basis to minimise the risk of the Commissioners being force to borrow on unfavourable terms to meet their financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

10 Treasury Management Indicators

The Commissioners measure and manage their exposure to treasury management risks using Treasury Management indicators governing upper limits for fixed and variable rate exposure. Having reviewed best practice, it is proposed that the following further indicators be piloted on a trial basis.

Security

The Commissioners will pilot a voluntary measure of their exposure to credit risk by monitoring the value weighted average credit rating / credit score of their investment portfolios.

	Target
Portfolio average credit rating for Warwickshire	A-
Portfolio average credit rating for West Mercia	A-

Liquidity

The Commissioners will continue to adopt a voluntary measure of their exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period without additional borrowing.

	Target
Total Cash Available for 3 months for Warwickshire	£21.7m

Total Cash Available for 3 months for West Mercia	£29.9m

Interest Rate Exposures

This indicator is set to control the Commissioners exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount / the proportion of net principal borrowed / interest payable will be:

Warwickshire	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure*	£23.7m	£27.3m	£30.0m
Upper limit on variable interest rate exposure	£0	£0	£0

West Mercia	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure*	£43.4m	£50.8m	£56.4m
Upper limit on variable interest rate exposure	£0	£0	£0

* this is the CFR figure.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity of fixed rate borrowing will be:

	Upper	Lower
Under 12 Months	50%	50%
12 Months and within 24 Months	100%	100%
24 Months and within 5 Years	100%	100%
5 Years and within 10 Years	100%	100%
10 Years and above Use additional periods above 10 years if there is a large amount of debt in this period	100%	100%

Time periods start on the first day or each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Warwickshire	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£5m	£3m	£3m

West Mercia	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£10m	£8m	£8m

11 Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

11.1 Policy on Use of Financial Derivatives:

In the absence of any explicit legal power to do so, the Commissioners will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivates embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in live with the overall treasury risk management strategy.

Commissioners can make use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

11.2 Investment Training

The needs of the Commissioners treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Commissioners have appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

11.3 Investment of Money Borrowed in Advance of Need

The Commissioner may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Commissioners are aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £40m for Warwickshire and £60m for West Mercia. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

12 Financial Implications

12.1 Warwickshire

The budget for investment income in 2017/18 is £142k, based on an average investment portfolio of £30 million at an interest rate of 0.33%. The budget for debt interest paid in 2017/18 is £0.688m, based on an average debt portfolio of £15.4m at an average interest rate of 4.1%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

12.2 West Mercia

The budget for investment income in 2017/18 is £169k, based on an average investment portfolio of £40 million at an interest rate of 0.35%. The budget for debt interest paid in 2017/18 is £0.584m, based on an average debt portfolio of £17.0m at an average interest rate of 3.4%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

13 Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer having consulted the Audit Committee believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range	Interest income will be	Lower chance of losses

of counterparties and / or for shorter times.	lower.	from credit related defaults, but any such losses may be greater.
Invest in a wider range of counterparties and / or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; this is unlikely to be offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default, however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain.
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain.

14 Review of Minimum Revenue Provision

Minimum Revenue Provision (MRP) is the method by which local authorities and PCCs charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. In effect, it covers the cost of the principal repayments on the debt and ensures that this is spread evenly over the life of the assets rather than when it is actually repaid (often at the end of the life of the loan).

Warwickshire and West Mercia have historically had different MRP policies and advice has been sought from the PCCs Treasury Advisers, Arlingclose, as to how to harmonise these policies and potentially whether any savings can be made in the revenue budget to reflect a policy that is more suitable, based on the MRP guidance that has been set by the Department for Communities and Local Government.

Arlingclose have issued a report and made some recommendations and we have worked through these to ascertain the best options for the alliance. It is anticipated that savings can be made but any changes to the MRP policy will need to be agreed with external audit. It is intended that any changes will be implemented with effect from 1 April 2017.

A further report will be brought to Audit Committee. This will include a revised MRP policy statement.

The Committee is asked to support this review.

APPENDIX A

POLICE AND CRIME COMMISSIONER FOR WARWICKSHIRE

Prudential Indicators and MRP Statement 2017/18

Prudential Indicators 2017/18

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Police and Crime Commissioners (PCCs) are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The PCC's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2016/17 Latest Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total Expenditure	**5.565**	**9.636**	**6.627**	**5.968**
Capital Receipts	2.230	0.413	0.000	0.000
Government Grants	2.675	0.425	0.425	0.425
Reserves	0.348	4.269	1.451	1.450
Revenue	0.312	0.000	0.000	0.000
Borrowing	0.000	4.529	4.751	4.093
Total Financing	**5.565**	**9.636**	**6.627**	**5.968**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total CFR	**20.515**	**23.738**	**27.291**	**29.996**

The CFR is forecast to rise by £9.5m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the CFR: In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total Borrowing	**14.944**	**18.559**	**22.374**	**25.508**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total Debt	**21.000**	**30.000**	**30.000**	**35.000**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Total Debt	**30.000**	**40.000**	**40.000**	**45.000**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	2.16	2.09	2.01	2.29

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	-0.13	-0.13	-0.12

Adoption of the CIPFA Treasury Management Code: The PCC adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Codes recommendations.

Annual Minimum Revenue Provision Statement 2017/18

Where the PCC finances capital expenditure by debt, he must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the PCC to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

> For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £0.666m.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the PCC's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2017 Estimated CFR £m	**2017/18 Estimated MRP £m**
Capital expenditure before 01.04.2008	11.190	0.516
Unsupported capital expenditure after 31.03.2008	9.325	0.812
Total General Fund	**20.515**	**1.328**

APPENDIX B

POLICE AND CRIME COMMISSIONER FOR WEST MERCIA

Prudential Indicators and MRP Statement 2017/18

Prudential Indicators 2017/18

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Police and Crime Commissioners (PCCs) are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The PCC's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2016/17 Latest Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total Expenditure	**17.458**	**26.018**	**14.389**	**13.101**
Capital Receipts	5.810	0.580	0.000	0.000
Government Grants	6.610	0.730	0.730	0.730
Reserves	4.350	10.494	4.267	4.266
Revenue	0.688	0.000	0.000	0.000
Borrowing	0.000	14.214	9.392	8.105
Total Financing	**17.458**	**26.018**	**14.389**	**13.101**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total CFR	**30.705**	**43.415**	**50.759**	**56.439**

The CFR is forecast to rise by £25.7m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the CFR: In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total Borrowing	**10.000**	**24.214**	**33.606**	**41.711**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total Debt	**31.000**	**50.000**	**55.000**	**60.000**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Total Debt	**40.000**	**60.000**	**65.000**	**70.000**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	0.89	0.89	1.30	1.56

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	0.00	0.81	0.58

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Codes recommendations.

Annual Minimum Revenue Provision Statement 2017/18

Where the PCC finances capital expenditure by debt, he must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the PCC to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

> For capital expenditure incurred before 1st April 2008 MRP will be determined as 4% of the Capital Financing Requirement in respect of that expenditure.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2017 Estimated CFR £m	**2017/18 Estimated MRP £m**
Capital expenditure before 01.04.2008	0.281	0.011
Unsupported capital expenditure after 31.03.2008	30.424	1.493
Total	**30.705**	**1.504**

APPENDIX C

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 D

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 entirely of such expenditure to revenue in the year in which it was incurred and 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 Requirements 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 and updated in 2012. This 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 and permits the Commissioner to vary the terms of the original MRP Statement in year, with a revised Statement being approved at that time.

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 that 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.