Decision No 2012/15

REPORT TO:	**POLICE AND CRIME COMMISSIONER FOR LANCASHIRE**
REPORT BY:	**LISA KITTO, CHIEF FINANCE OFFICER**
DATE:	**13 MARCH 2013**
TITLE:	**TREASURY MANAGEMENT POLICY AND STRATEGY 2013/14**

Appendices A & B refer

EXECUTIVE SUMMARY

This report outlines the proposed Treasury Management Policy Framework for 2013/14 as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2011). It includes the Police and Crime Commissioner's borrowing and investment strategies, together with the treasury management prudential indicators which seek to ensure that the Commissioner's borrowing levels remain both sustainable and affordable.

RECOMMENDATION

The Police and Crime Commissioner is recommended to approve the Treasury Management Policy Framework for 2013/14 as set out at Appendices A and B.

Decision taken by the Police and Crime Commissioner for Lancashire:

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

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

Police and Crime Commissioner: Comments

DECLARATIONS OF INTEREST

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

STATEMENT OF COMPLIANCE

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

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

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

APPENDIX A

The Police and Crime Commissioner's Treasury Management Strategy 2013/14

Introduction and Legislative Framework

Treasury management is defined as "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

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

The Police Authority entered into a counterparty arrangement with Lancashire County Council. In doing so the Authority used the County Council as its investment counterparty and thereby reduced the counterparty credit risk. This arrangement is still in place for the Police and Crime Commissioner.

Statutory Requirements

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

This report fulfils the Commissioner's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance. The primary requirements of the CIPFA Code are as follows-

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

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

3. The production of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

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

5. Delegation by the Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. For this the delegated body is the Audit Committee.

Treasury Management Strategy for 2013/14

The Commissioner's Treasury Management Strategy is designed to achieve the following objectives;

- To ensure the security of the principal sums invested which represent the Commissioner's various reserves and balances
- To ensure the Commissioner has access to cash resources as and when required
- To minimise the cost of borrowing required to finance the Commissioner's investment programme and;
- To maximise investment returns commensurate with the commissioner's policy of minimising risks to the security of capital and its liquidity position

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

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

Area of Responsibility	**Responsible Body/Officer**	**Frequency**
Treasury Management Policy Statement	Police and Crime Commissioner	Annually before the start of the financial year.
Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval	Police and Crime Commissioner	Annually before the start of the financial year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report, scrutiny of performance	Police and Crime Commissioner/Audit Committee	Mid year – 6 months
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or	Police and Crime Commissioner	As required

revisions at other times		
Annual Treasury Management Outturn Report	Police and Crime Commissioner / Audit Committee	Annually by 30 September
Treasury Management Monitoring Reports	Chief Finance Officer	Quarterly
Treasury Management Practices	Chief Finance Officer	Annually

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

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

Economic Context

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reticent to make long-term investment decisions. The momentum in GDP growth is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has fallen close to the Bank of England's 2% target, although it is expected to be affected by volatility in energy and commodity prices throughout 2013.

Having voted to increase quantitative easing by £50bn in July, the Bank's Monetary Policy Committee is waiting to assess the effectiveness of the Funding for Lending Scheme that started in August. Further asset purchases remain a distinct possibility, although there is a developing consensus that quantitative easing is becoming less effective.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of $40bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' nevertheless remains a serious risk unless a political solution is reached soon.

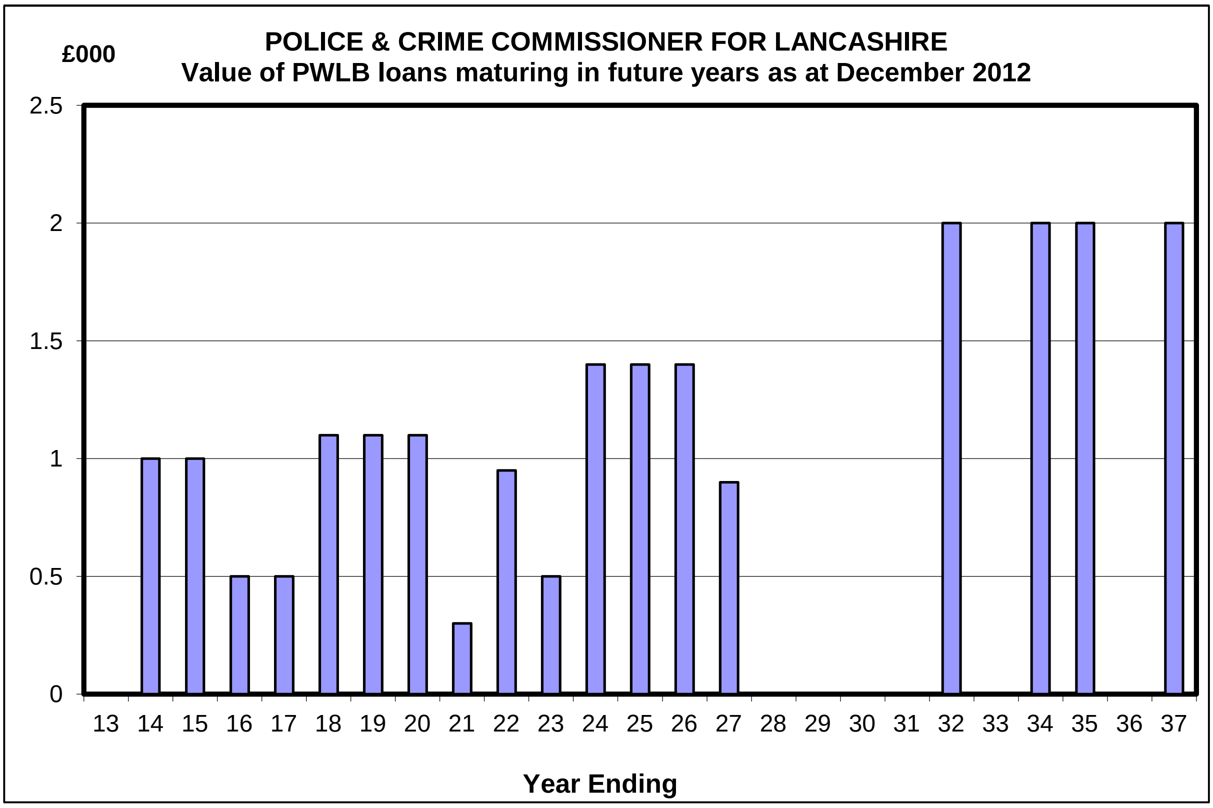
The Eurozone is making slow headway, with the European Stability Mechanism now perational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Current Treasury Portfolio Position

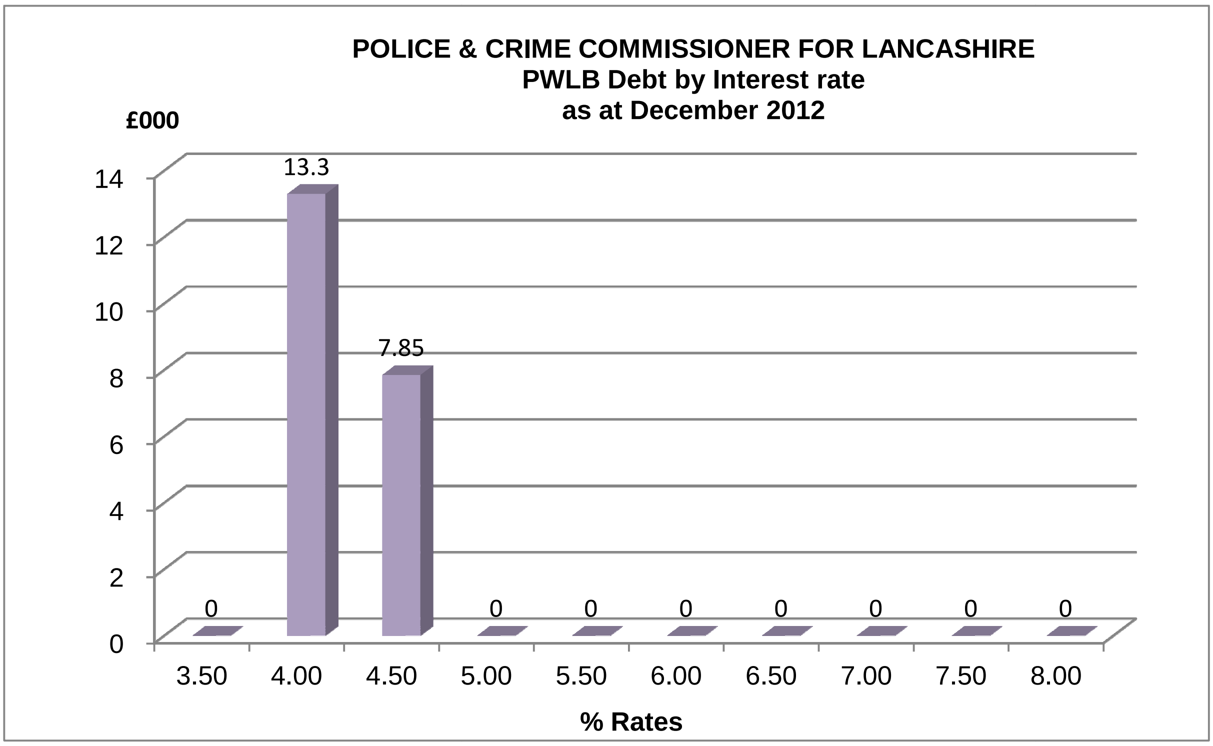
The current estimate of the Commissioner's treasury portfolio at the beginning of the financial year 2013/14 is;

	Principal Amount (£000)	%
DEBT		
Fixed rate loans from PWLB	21,154	100
Variable rate loans	0	
TOTAL DEBT	**21,154**	
INVESTMENTS		
Estimated investments in General Fund	5,484	
TOTAL INVESTMENTS	**5,484**	
NET BORROWING	**15,670**	

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



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



The level of investments represents the Commissioner's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is net borrowing position of £15.670m estimated at the end of financial year 2012-13.

Prospects for Interest Rates and Market Liquidity

In planning the treasury management strategy, the Commissioner will consider the prevailing and forecast interest rate situation. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to the County Council. The latest forecast is shown in the table below:

Arlingclose Forecast **Market Forecast**

	Bank Rate	3 Month LIBID	12 Month LIBID	20 year Gilt Yield	Bank Rate	3 month LIBID	20 year Gilt Yield
Current	0.50%	0.39	0.89	2.76	0.50	0.39	2.76
Q1 2013	0.50%	0.40	0.90	2.80	0.40	0.39	2.54
Q2 2013	0.50%	0.40	0.90	2.80	0.38	0.39	2.59
Q3 2013	0.50%	0.40	0.95	2.80	0.40	0.39	2.63
Q4 2013	0.50%	0.45	0.95	2.80	0.37	0.42	2.68
Q1 2014	0.50%	0.45	1.00	2.90	0.37	0.44	2.72
Q2 2014	0.50%	0.50	1.00	2.90	0.37	0.47	2.77
Q3 2014	0.50%	0.50	1.00	2.90	0.39	0.58	2.86
Q4 2014	0.50%	0.50	1.00	2.90	0.41	0.72	2.86
H1 2015	0.50%	0.55	1.10	3.00	0.57	0.72	2.95
H2 2015	0.50%	0.60	1.10	3.00	0.64	0.89	3.04

In the above table 'bank rate' refers to the policy rate of the Bank of England.
'LIBID" is the London Interbank bid rate and can be used as a proxy for short term market interest rates. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long

term interest rates. The Comissioner can borrow at 80 basis points above the gilt yield, so for example the current fixed interest rate to borrow PWLB money would be 3.56%.

This forecast has been based on the following underlying assumptions:

- UK growth is likely to remain weak for the foreseeable future. The rebalancing from public sector driven consumption to private sector demand and investment is yet to manifest, and there are few signs of productivity growth. An uncertain outlook for Europe and a slowdown in the global economy have exacerbated the weakness.
- Consumer price inflation has fallen to 2.7% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices but a slow decrease towards the 2% target is a likely scenario. Real wage growth is forecast to remain weak with a consequent knock on effect in consumer demand. These are all reasons why interest rates are unlikely to rise soon.
- The US 'fiscal cliff' remains unresolved and the Federal Reserve has shifted its rate guidance from a date based indication to economic thresholds (unemployment, short and longer-term inflation outlook) to determine the raising of official policy rates.
- The Eurozone is making slow headway and although the now operational European Stability Mechanism has placated markets and curtailed some of the immediate risks, peripheral countries are likely to continue to struggle and full banking and fiscal union is still some years away.

Impact of these factors on the Borrowing Strategy

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

- The UK remains in a low growth situation and with a tight fiscal and loose monetary policy approach it could be 2015 before official UK interest rates rise. The UKs safe haven status and minimal prospect of rate rises are expected to keep gilt yields near their current lows in the near term.

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

Impact of these strategies on the investment strategy

The Commissioner has a counterparty arrangement with Lancashire County Council regarding investments. The County Council's Treasury Management Strategy has been reviewed in relation to this and it is stated;

The County Council's strategy will be based upon the following information;

- *The continuing concerns in the financial markets over sovereign debt, particularly in the Eurozone are impacting negatively on the credit quality of bank counterparties, and the county council will therefore look to reduce the duration of its exposure to those bank counterparties which continue to meet tightened credit quality criteria.*

- *Given the level of risk involved in dealing with bank counterparties the County Council will look to diversify its portfolio away from such counterparties while maintaining the highest credit quality of counterparties.*

This approach is considered to be appropriate for the Commissioner's requirements.

Borrowing Strategy

The Commissioner's estimated borrowing requirement for financing for the current year and the next 3 years is as follows;

	2012/13 (Revised) £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Capital Programme borrowing	1,217	4,185	10,765	3,507	765
Maturing long-term debt	2,500	1,000	1,000	500	1,600
Less statutory charge to revenue (MRP)	(1,376)	(1,366)	(1,356)	(1,337)	(1,776)
Borrowing requirement b/fwd from 11-12	12,547	14,888	0	0	0
TOTAL BORROWING REQUIREMENT	**14,888**	**18,707**	**10,409**	**2,670**	**589**

The Commissioner's capital financing requirement as at 31st March 2013 is expected to be £14.888m and is forecast to rose to £18.707m by March 2014 as capital expenditure is incurred. In addition, the Commissioner may borrow for short periods of time to cover unexpected cash flow shortages.

The cheapest borrowing at present is internal borrowing by running down cash balances and foregoing interest earned at historically low rates - this is the policy the Police Authority had been pursuing for the last four years, funding capital expenditure and paying down existing debt from existing balances. The immediate future is likely to see a continuation of this policy.

However, in view of the overall forecast for long term borrowing rates to increase over the next few years, and the requirement to finance the Commissioner's future capital programme and previous year's borrowing requirement, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

A couple of recent developments have impacted upon the local authority borrowing environment;

- In recent years Central Government appeared to be steering local authorities away from reliance of PWLB funding and more towards market borrowing. However the introduction of the 'certainty rate' in November 2012 introduced a 20 basis point reduction in the usual PWLB rate. The Commissioner can now borrow from PWLB at gilts + 80 basis points (0.8%.)

- However, it is still not an automatic decision to borrow from PWLB. Another change in the environment is the development of an inter-local authority market. This market has grown considerably over the last two years such that it provides a real alternative to long term PWLB borrowing and the expanded market participants means that other local authorities, besides Lancashire County Council, are available to fund the Commissioner's borrowing requirement.

- These developments mean it is now appropriate to change the borrowing policy, from Lancashire County Council being the only possible counterparty, and future borrowing will be funded either from PWLB at fixed or variable rates, or from Lancashire County Council or other local authorities at current wholesale market rates.

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

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

All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria;

- Overall need, whether a borrowing requirement to fund the capital programme or previous capital investment exists;
- Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;
- Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost, including a comparison between internally and externally financed borrowing;
- Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.

All long term decisions will be documented reflecting the assessment of these criteria.

Investment Strategy

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

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

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

The legislative and regulatory background to treasury management activities requires the Commissioner to set out his proposed use of “specified” and “non-specified” investments. Broadly speaking, specified investments are sterling cash deposits for periods of 364 days or less with highly credit-rated counterparties (i.e. investments requiring minimal procedural formalities).

Non-specified investments fall outside that definition and may be either for longer periods or involve more sophisticated market instruments such as bonds or certificates of deposit. Under this policy any non specified investments will be investments with Lancashire County Council or other local authorities over 364 days.

It is not the intention of the guidance to deter authorities from using non-specified investments, but simply to highlight that there may be increased risk due to a longer maturity period.

The County Council has for the last two financial years provided an enhanced call arrangement where the Authority's counterparty is the County Council itself, thus practically eliminating all credit risk for the Commissioner. Any amount may be invested in or withdrawn from the GCF without notice and the interest rate paid will be an enhanced market rate. The option is also open to specify a longer maturity period for part of the Commissioner's investment portfolio which will then attract a higher rate appropriate to the agreed maturity period, but again the counterparty and therefore credit risk is that of the County Council. As a result of this policy the Commissioner has access to a call (instant access) account, which pays 20 basis points (0.20%) above bank rate, this is currently 0.70%. Each working day the balance on the Commissioner's current account is invested in this to ensure that the interest received on surplus balances is maximised.

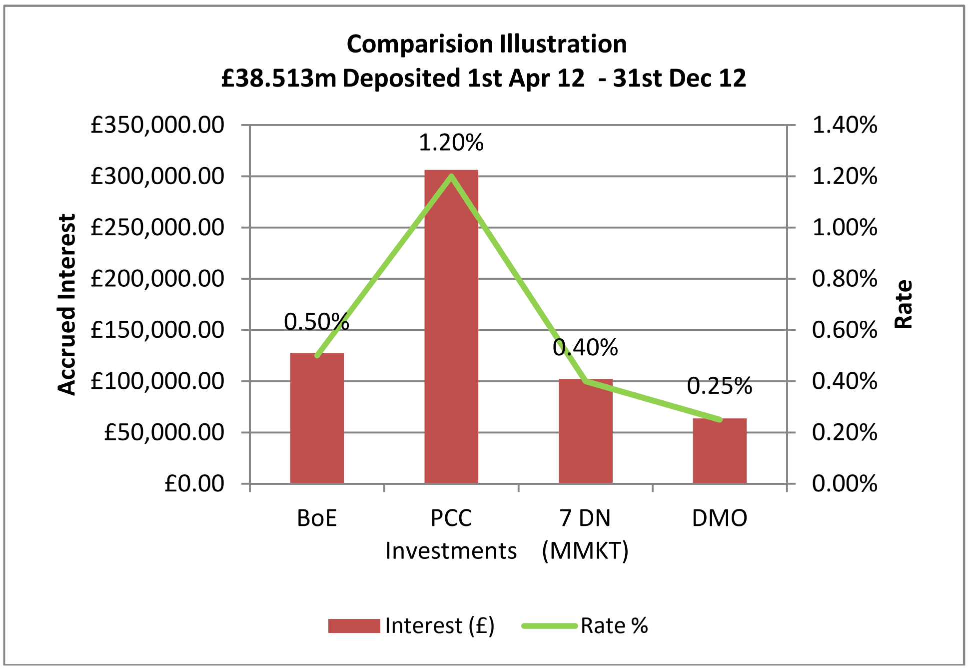
The call account arrangement will continue throughout 2013/14, but the development of the inter-local authority market does now present alternative opportunities. This market which now provides investment opportunities with secure counterparties as the greatly expanded number of market participants use the market to finance borrowing as an alternative to long term PWLB borrowing. For 2013/14 it is proposed that other local authorities, besides Lancashire County Council, are added to the counterparty list for investment purposes.

The performance target on investments will remain as being above the average rate for 7 day notice money. In addition the Commissioner is able to make specific investments with LCC at any time, and has made the following investments during 2012/13;

INV Number	Start Date	Maturity Date	Amount £M	Duration	Interest Rate	Interest on Maturity £
LPA3	01-07-2011	29-06-2012	15,000	364 days	1.54%	230,367.12
LPA4	30-12-2011	29-06-2012	4,000	182 days	1.36%	27,125.48
PCC5	02-07-2012	01-07-2013	15,000	364 days	1.65%	246,821.92
PCC6	02-07-2012	31-12-2012	15,000	182 days	1.14%	85,265.75

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2012 is £344.6k on an average balance of £38.5m at an average rate of 1.19%. The current interest rate is 1.20% and this compares favourably with the benchmark 7 day notice index which averages 0.35% over the same period.

The graph below demonstrates favourable rates offered against PCC investments when compared alongside base rate, UK Treasury DMO account and 7 day notice accounts.



The existing fixed term investment matures in July 2013. However the current cash flow forecast anticipates that some of this cash will be necessary for cash flow purposes at the end of March. If this proves to be the case, as an alternative to borrowing, the fixed investment may be collapsed and the balance moved into the call account until balances are once again sufficient to enable a further fixed deposit. The portfolio position set out at page 6 reflects this action.

The Commissioner's CFO and the Treasury Management team will ensure the liquidity provided by the call arrangement is sufficient for the Commissioner's requirements during the 2013/14 financial year. The bank balance will be checked and interest calculated on a daily basis at the prevailing call rate.

Policy on Borrowing in Advance of Need.

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

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

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

- Consider the merits and demerits of alternative forms of funding.

- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Minimum Revenue Provision (MRP) Strategy

The Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09. The Commissioner is required to assess MRP for 2013/14 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2012/13 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with the Capital Financing Requirement method for MRP calculation. This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used by the Authority since the introduction of the MRP in 2004. Unsupported borrowing reflected within the debt liability at 31st March 2010 will under delegated powers be subject to MRP under the Asset life method, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

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

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

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

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

The capital programme contains a scheme for the replacement of Blackpool police station which will involve an additional MRP charge to cover the financing of the new asset. This charge will be deferred, using current capital financing regulations, until the asset becomes fully operational in 2016/17, when savings will be realised from the restructure of the existing facilities.

Prudential Indicators

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

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

Treasury Management Prudential Indicators	**2012/13 (Revised) £000**	**2013/14 £000**	**2014/15 £000**	**2015/16 £000**
1. Adoption of the Revised CIPFA Code of Practice on Treasury Management	Adopted for all years in January 2012			
2. Authorised limit for external debt - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements.				
Borrowing	43,000	44,000	53,000	55,000
Other long-term liabilities	1,000	1,000	1,000	1,000
TOTAL	44,000	45,000	54,000	56,000
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Commissioner's current plans.				
Borrowing	40,000	41,000	50,000	52,000
Other long-term liabilities	1,000	1,000	1,000	1,000
TOTAL	41,000	42,000	51,000	53,000

4. Gross Debt / Capital Financing Requirement Indicator

	2013/14 £m	2014/15 £m	2015/16 £m
Capital Financing Requirement	42.210	51.619	53.789
Maximum Gross Debt	40.281	49.453	51.386
Debt to CFR	95%	96%	96%

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

5. Upper limit for fixed interest rate exposure				
Upper limit of borrowing at fixed rates	100%	100%	100%	100%
Upper limit of investments at fixed rates	100%	100%	100%	100%
6. Upper limit for variable rate exposure				
Upper limit of borrowing at variable rates	75%	75%	75%	75%
Upper limit of investments at variable rates	100%	100%	100%	100%
7. Upper limit for total principal sums invested for over 364 days (per maturity date as a percentage of total investments.**)**	75%	75%	75%	75%

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

Appendix B

Treasury Management Policy Statement

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

Definition

The Police and Crime Commissioner defines its treasury management activities as:

- the management of the Commissioner's investments and cash flows,
- its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities
- the pursuit of optimum performance consistent with those risks.

Risk Appetite
The Commissioner's appetite to risk in terms of its treasury management activities is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the cost of borrowing.

Risk Management
The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on how the actions taken and the financial instruments entered into result in reduced risk exposure for the Commissioner.

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

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

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

Investment policy

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

The Commissioner will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.