**Treasury Management Strategy 2021/22**

**Background**

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. Treasury management is defined in the CIPFA treasury management in the public services code of practice (the CIPFA Code) 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.”

The CIPFA Code includes the recommendation that authorities adopt the following:

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 1.
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. This is delegated to the Chief Finance Officer.
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.

The PCC has adopted the Code and also adheres to investment guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). In 2018 the MHCLG issued new guidance which widens the definition of investments. For treasury management investments the guidance requires authorities to prioritise security, liquidity and yield in that order of importance. This is consistent with previous guidance. In addition, the guidance definition includes financial and non-financial assets which are held primarily or partially to generate a profit.

Where an authority holds non treasury investments it is required to produce a separate investment strategy. Although the definition is wide ranging covering loans to third parties, the holding of property to make a profit it is not considered that the PCC hold any such assets and it does not propose to engage in any such investments in 2021/22.

This strategy supports the Commissioner's Medium-Term Financial Strategy along with the capital strategy and the reserves strategy.

This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

**Reporting requirements**

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

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

**Treasury Management Strategy for 2021/22**

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**

Economic Forecast

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority’s treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE’s November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank’s (ECB) target of ‘below, but close to 2%’. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

**Interest Rate Forecast and Prospects for Market Liquidity**

The treasury management consultant Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The latest forecast is shown in the table below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Bank Rate % | 3 month money market rate% | I year money market rate% | 5 year gilt yield % | 10 year gilt yield % | 20 year gilt yield % | 50 year gilt yield % |
| March 21 | 0.10 | 0.10 | 0.15 | 0.00 | 0.25 | 0.70 | 0.60 |
| June 21 | 0.10 | 0.10 | 0.15 | 0.00 | 0.30 | 0.70 | 0.60 |
| September 21 | 0.10 | 0.15 | 0.25 | 0.05 | 0.35 | 0.75 | 0.65 |
| December 21 | 0.10 | 0.15 | 0.25 | 0.10 | 0.25 | 0.75 | 0.65 |
| March 22 | 0.10 | 0.20 | 0.30 | 0.15 | 0.40 | 0.75 | 0.65 |
| June 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.40 | 0.80 | 0.70 |
| September 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.45 | 0.80 | 0.70 |
| December 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.45 | 0.85 | 0.75 |
| March 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.50 | 0.85 | 0.75 |
| June 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.85 | 0.75 |
| September 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.85 | 0.75 |
| December 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.90 | 0.80 |
| March 24 | 0.10 | 0.20 | 0.30 | 0.25 | 0.60 | 0.90 | 0.80 |

In the above table 'bank rate' refers to the policy rate of the Bank of England. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long-term interest rates. The Authority can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 1.05%, 0.25% plus 0.80%.

**Current Position**

**Current Treasury Portfolio Position**

|  |  |  |
| --- | --- | --- |
| **The current value of the Commissioner's Treasury Portfolio at 28.2.2021 is:**  **DEBT** | **Principal** |  |
| **£m** |  |
| Fixed rate loans from PWLB | 57.742 |  |
| Fixed term loans from other local authorities | 32.000 |  |
| Total debt | **89.742** |  |
| **INVESTMENTS** |  |  |
| Variable rate investments in the County Council's General County Fund  Fixed rate deposit with local authority | 34.949  5.350 |  |
| **Total investments** | **40.299** |  |

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.

**Borrowing Requirement**

In the medium term the PCC borrows for capital purposes only. 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 table below compares the estimated CFR to the debt which currently exists. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

The CFR has been calculated adopting a policy that the Commissioner has set aside revenue reserves and contributions to contribute to the delivery of the investment included in the Capital Programme. This resource will be used, in the first instance, to provide finance for short life assets such as IT systems and equipment in order to avoid the use of borrowing where possible for this type of asset. The Commissioner's strategy increases the revenue budget each year in respect of the contribution made to finance the capital programme. This approach reflects the reduction in earmarked reserves available for funding the capital programme and represents a prudent strategy for the funding of short life assets. This approach is taken because the annual cost of borrowing over shorter terms is more expensive than for longer periods due to the higher MRP repayment and the use of revenue contributions and reserves to minimise such shorter life borrowing represents better value for money.

The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 31/3/2021 | 31/3/2022 | 31/3/2023 | 31/3/2024 |
|  | £m | £m | £m | £m |
| Capital Financing Requirement | 70.588 | 93.655 | 120.284 | 151.469 |
|  |  |  |  |  |
| *Less* external borrowing | 84.442 | 56.417 | 40.538 | 39.363 |
| Borrowing requirement | (13.854) | 37.238 | 79.746 | 112.106 |
|  |  |  |  |  |
| Reserves and working capital | (14.319) | (14.169) | (13.919) | (13.769) |
| Borrowing/(investment) need | (28.173) | 23.069 | 65.827 | 98.337 |

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The underlying need to borrow in the long term is greater than the actual borrowing as shown by the comparison of the CFR and actual debt in the graph below.

The table shows that there will be a need for borrowing even after the use of internal resources.

**Borrowing Strategy**

The data shown above demonstrates that the Commissioner does have a significant borrowing requirement both in the short and long term. This requirement could be met by taking a series of long-term loans. However, this may be too simplistic approach as there will be some internal resources that could be used to replace borrowing especially as the receipt of income is not even during the year. The diagram below shows the cashflow forecasts for 2021/22 before any further borrowing decisions are taken:

The graph illustrates there are times when cash flow is positive and therefore short-term loans could be used to meet the borrowing need in the year. However, as capital expenditure is incurred over the next few years this will becoming increasingly difficult.

It is therefore anticipated that the borrowing strategy will be to meet requirements by a mixture of long and short-term borrowing. Short term borrowing is generally cheaper in year but there is the risk that future replacement loans will be more expensive. Therefore, consideration will be given to both debt maturity profile and the latest interest rate forecasts to assess whether long or short-term borrowing is taken.

The table below shows the maturity profile of the existing debt in 2021/22

|  |  |  |
| --- | --- | --- |
| Years to maturity from 1.4.21 | Debt £m | % |
| 1 year | 43.025 | 43.3 |
| 2-5 years | 20.004 | 20.1 |
| 5-10 years | 11.275 | 11.3 |
| Over 10 years | 25.138 | 25.3 |

This illustrates that the portfolio does have a reasonable proportion of long-term debt to mitigate refinancing risk while taking some of the benefits of short-term borrowing.

The interest rates and Gilt rates, which determine PWLB loan rates, forecasts shown earlier in the report show rates are expected to remain at low levels albeit rising slowly. If there was an expectation that long term rates were due to increase sharply then it is likely that more long-term loans would be taken. The situation will be constantly reviewed by County Councils Treasury Management Team and the Chief Finance Officer.

In undertaking borrowing the approved sources of long-term and short-term borrowing currently are:

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

It is proposed that this will continue.

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

Debt Restructuring

The Chief Finance Officer, together 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, restructure is not considered financially viable at the present time. A better option for the immediate future is to continue to utilise reserves to minimise the future borrowing requirement rather than repay debt.

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

**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. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. 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.

**Treasury Management Investment Strategy**

The Commissioner will have regard to the MHCLG’s Guidance on Local Government Investments and the revised CIPFA Treasury Management in Public Services Code of Practice and 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.

**Current Investments**

At 28 February 2021 the Commissioner held £40.299m invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the Commissioner’s investment balance has averaged at £35.886m, with the highest balance being £83.437m. The Commissioner will only use very high-quality counterparties for investments. The Commissioner's investments are principally held with LCC with the other investments being fixed term deposits with other local authorities. At 28 February £34.949m is held at LCC while £5.350m is held with local authorities. These balances are forecast to reduce to around £20m by the end of March 2021.

The Commissioner currently has access to a call (instant access) account with LCC. This currently pays bank rate, (currently 0.10%). 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 interest earned during the year as at 28 February 2021 is £0.042m at an annualised rate of 0.13%. This compares favourably with the benchmark 7 day LIBID which averages 0.115% over the same period.

Investment Counter-parties

With security and liquidity being key drivers of the investment strategy it is expected that the LCC call account will remain a key part of the investments. However, the Commissioner can invest with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting their approved strategy. For periods longer than two years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Maximum individual investment (£m) | Maximum total investment (£m) | Maximum period |
| Up to 2 years | 10 | 250 | 2 years |
| Over 2 years | 10 | 50 | 10 years |

The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

The Commissioner may invest surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

|  |  |  |  |
| --- | --- | --- | --- |
| **Counterparty** |  | **Cash limit** | **Time limit †** |
| Secured Bank Deposits, Reverse repurchase Agreements | AAA | £5m each | 5 years\* |
| AA+ | 3 years\* |
| AA | 2 years\* |
| AA- | 2 years\* |
| Call Accounts with banks and other organisations with minimum AA- credit rating |  | £10m | next day |
| UK Central Government (irrespective of credit rating) |  | unlimited | 50 years\*\* |
| UK Local Authorities (irrespective of credit rating) |  | £10m | 10 years |
| Call Account with Lancashire County Council |  | unlimited | Next day |
| Secured Bond Funds AA rating and WAL not more than 3 years |  | £5m each | n/a |
| Secured Bond Funds AAA rated and WAL not more than 5 years |  | £5m each | n/a |

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

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

Whilst the investment strategy allows flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Chief Finance Officer and LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

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

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

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

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

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

**Revenue Budget**

Based on the Strategy outlined above then the proposed budget for capital financing are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|  | £m | £m | £m | £m |
| MRP | 1.406 | 2.071 | 3.346 | 4.209 |
| Interest payable | 1.684 | 2.700 | 3.100 | 3.300 |
| Interest receivable | -0.257 | -0.200 | -0.200 | -0.200 |
| Net budget | 2.833 | 4.571 | 6.246 | 7.309 |

**Prudential Indicators for 2021/22 to 2023/24 in respect of the Police and Crime Commissioner's Treasury Management Activities.**

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

The following table sets out the debt and investment-related indicators which provide the framework for the Commissioner’s proposed borrowing and lending activities over the coming three years.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Prudential Indicators | | | **2020/21 (Revised)** | **2021/22** | **2022/23** | | **2023/24** |
|  | | | **£000** | **£000** | **£000** | | **£000** |
| 1. **Adoption of the Revised CIPFA Code of Practice on Treasury Management** | | | Adopted for all years | | | | |
| 1. **Estimated capital expenditure** | | | 14,197 30,649 42,700 48,848 | | | | |
| 1. **Authorised limit for external debt** - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements. | | |  |  |  | |  |
| Borrowing | | | 120,000 | 130,000 | 160,000 | | 190,000 |
| Other long-term liabilities | | | 5,000 | 5,000 | 5,000 | | 5,000 |
| TOTAL | | | 125,000 | 135,000 | 165,000 | | 195,000 |
| 1. **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 | | | 90,000 | 95,000 | 120,000 | | 150,000 |
| Other long-term liabilities | | | 500 | 500 | 500 | | 500 |
| TOTAL | | | 95,500 | 95,500 | 120,500 | | 150,500 |
| 1. **Gross Debt / Capital Financing Requirement Indicator**  |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | 2020/21 (Rev) | 2021/22 | 2022/23 | 2023/24 | |  | £m | £m | £m | £m |   Capital Financing Requirement 70.588 93.665 120.284 151.469  Estimated Gross Debt 84.442 93.000 120.000 150.000  Debt to CFR (%) 119 99 99 99  The debt exceeds the CFR at 31.3.21 as some borrowing for prior years has been undertaken. This is in with the.  Code. | | | | | | | | |
| 1. **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% |
|  | | |  |  |  | |  |
| 1. **Impact 1% rate rise limit** | | | £10m | £10m | £10m | |  |
|  | | |  |  |  | |  |
| 1. **Upper limit for total principal sums invested for over 364 days (**per maturity date as a percentage of total investments.**)** | | | **£300m** | **£300m** | **300m** | | **300m** |
| 1. **Maturity structure of Debt** | **Upper Limit %** | | | | **Lower Limit %** | |
| Under 12 months | 90 | | | | - | |
| 12 months and within 24 months | 80 | | | | - | |
| 24 months and within 5 years | 85 | | | | - | |
| 5 years and within 10 years | 85 | | | | - | |
| 10 years and above | 95 | | | | 5 | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
|  | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| 1. **Ratio of financing costs to revenue stream (%)** | 0.98 | 0.86 | 1.33 | 1.89 | 2.20 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Annex A**

**Treasury Management Policy Statement**

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

***Definition***

The Police and Crime Commissioner defines his treasury management activities as: the management of the Commissioner's investments and cash flows, his banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

***Risk management***

The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of his treasury management activities will be measured.  Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

***Value for money***

The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives.  He 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 aims to fund its capital expenditure in a cost-effective manner. This will involve using short term and variable rate loans when these are seen as being the most beneficial strategy. However, consideration will be given to the long-term funding needs and the stability to budgets that fixed interest loans provides. 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. He 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 his surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of services is an important, but secondary, objective.

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