The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2016-2017

Contents

1. INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (The Commissioner's Office) 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 needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Police and Crime Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return.

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 borrowing need, and longer term cash flow planning to ensure that the The Commissioner's Office can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet The Commissioner's Office risk or cost objectives.

The responsible officer for treasury management is Chief Finance Officer to the Police & Crime Commissioner (CFO).

CIPFA defines treasury management 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 Reporting requirements

The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans, prudential indicators and borrowing plans.
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time).

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators.
- an investment strategy (the parameters for managing investments)

A mid-year treasury management report – This will update the Commissioner with the capital position regarding capital, and amend prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.
An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The responsibility for scrutiny lies with the Commissioner supported by the Audit and Scrutiny Panel. The above reports are reviewed at the Strategic Resources and Performance meetings of the Commissioner.

1.3 Treasury Management Strategy for 2016-17

The strategy covers two main areas:

Capital issues
- the capital plans and the prudential indicators.
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the The Commissioner's Office.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy.
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance

1.4 Training

The CIPFA Code requires that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the Commissioner who is responsible for scrutiny. Training for the Commissioner was delivered in March 2014 and the Chief financial Officer to the Commissioner (CFO) has attended relevant seminars during the year.The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The The Commissioner's Office uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The The Commissioner's Office recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The CFO will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2015-16 – 2018-19

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, to give an overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Commissioner is asked to approve the capital expenditure forecasts, excluding other long term liabilities, such as Private Finance Initiatives (PFI) and leasing arrangements, which already include borrowing instruments.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Capital Expenditure £m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Capital Programme	10.464	11.636	12.018	3.575	4.000	4.000
Financed by:						
Capital receipts	-1.552	-1.369	-2.149	-3.054	0.000	0.000
Capital grants	-1.767	-1.448	-0.869	-0.521	0.000	0.000
Capital contributions	-2.033	-1.300	0.000	0.000	0.000	0.000
Internal resources	0.000	0.000	0.000	0.000	0.000	0.000
Net financing need	**5.112**	**7.519**	**9.000**	**0.000**	**4.000**	**4.000**

2.2 The Commissioners borrowing need (Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes.

The Commissioner is asked to approve the CFR projections below:

£m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Capital Financing Requirement						
Total CFR	52.717	58.095	64.261	60.899	61.578	61.298
Movement in CFR	**-**	**5.378**	**6.166**	**-3.362**	**0.680**	**-0.280**

Movement in CFR represented by						
£m	**2014-15 Actual**	**2015-16 Estimate**	**2016-17 Estimate**	**2017-18 Estimate**	**2018-19 Estimate**	**2019-20 Estimate**
Net financing need for the year (above)	-	7.519	9.000	0	4.000	4.000
Less MRP/VRP and other financing movements	-	-2.141	-2.834	--3.362	-3.320	-4.280
Movement in CFR	**-**	**5.378**	**6.166**	**-3.362**	**0.680**	**-0.280**

N.B. The code does not require the reporting of downward estimated move.ments to CFR but information is included for completeness.

2.3 Minimum Revenue Provision (MRP) policy statement

The The Commissioner's Office is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). Additional voluntary payments are also allowed. (voluntary revenue provision - VRP).

Communities and Local Government regulations have been issued which require the Commissioner to approve an MRP Statement in advance of each year. A variety of options are available to the Commissioner, as long as there is a prudent provision.

The Commissioner is recommended to approve the following MRP Statement:

The Commissioner will set aside an amount for MRP each year, which is deemed to be both prudent and affordable. This will be after considering statutory requirements and relevant guidance from the DCLG

Repayments included in annual PFI or finance leases are applied as MRP.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either capital finance or revenue purposes will reduce investments unless replaced by asset sales or revenue underspend. Detailed below are estimates of the year end resource balances and anticipated daily cashflow balances.

	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Fund balances / reserves	23.247	14.956	11.429	11.464	14.500	17.535
Capital receipts	1.369	2.149	3.054	0.000	0.000	0.000
Provisions	2.463	2.463	2.463	2.463	2.463	2.463
Other	-3.754	-4.155	-4.155	-4.155	-4.155	-4.155
Total core funds	**23.325**	**15.413**	**12.791**	**9.772**	**12.808**	**15.843**
Working capital*	**-0.872**	**-4.410**	**-5.510**	**-3.337**	**-10.037**	**-17.300**
(Under)/over borrowing	**-10.124**	**-7.003**	**-3.281**	**-2.435**	**1.229**	**5.457**
Expected investments	**12.329**	**4.000**	**4.000**	**4.000**	**4.000**	**4.000**

*Working capital balances shown are estimated year end; these may be higher mid -year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioners overall finances.

The Commissioner is requested to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Ratio	1.9	1.8	2.4	2.8	2.8	3.5

The estimates of financing costs include commitments and a reasonable assessment of forthcoming capital proposals.

2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

£	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Ratio	0.97	2.83	3.82	4.28	5.03

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity. The treasury management function ensures that the Commissioners cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

£m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
External Debt						
Debt at 1 April	31.689	39.732	48.231	58.119	55.603	59.946
New Borrowing	12.000	17.068	13.908	1.659	5.677	5.178
Borrowing repaid	-3.957	-8.569	-4.020	-4.175	-1.334	-1.230
Movement in borrowing	8.043	8.499	9.888	-2.516	4.343	3.948
Debt as at 31 March	**39.732**	**48.231**	**58.119**	**55.603**	**59.946**	**63.894**
Capital Financing Requirement	52.717	58.095	64.261	60.899	61.578	61.298
Other long-term liabilities (OLTL)	-2.861	-2.861	-2.861	-2.861	-2.861	-2.861
Underlying Borrowing Need	49.856	55.234	61.400	58.038	58.717	58.437
Under / (over) borrowing	**10.124**	**7.003**	**3.281**	**2.435**	**-1.229**	**-5.457**
Investments						
Investments	12.329	4.000	4.000	4.000	4.000	4.000
Change in Investments	-3.273	-8.329	0.000	0.000	0.000	0.000
Net Debt	**27.403**	**44.231**	**54.119**	**51.603**	**55.946**	**59.894**

3.2 Current portfolio position

The Commissioners treasury portfolio position at March 2016, with forward projections is summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Operational boundary £m	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Total	65.000	70.000	70.000	70.000	75.000

Within the prudential indicators there are a number of key indicators to ensure that activities operate within well defined limits. One of these is that the Commissioner needs to ensure that its gross debt does not (except in the short term), exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015-2016 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Commissioner is requested to approve the following authorised limit:

Authorised limit £m	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Total	75.000	80.000	80.000	80.000	85.000

3.4 Prospects for interest rates and economic background

The Commissioner's Office has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. The table below gives Capita's view (November 2015).

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
01 December 2015	0.5	2.0	3.3	3.3
01 March 2016	0.8	2.6	4.0	4.0
01 June 2016	1.0	2.8	4.2	4.2
01 September 2016	1.0	2.9	4.3	4.3
01 December 2016	1.3	3.0	4.4	4.4
01 March 2017	1.3	3.2	4.5	4.5
01 June 2017	1.5	3.3	4.6	4.6
01 September 2017	1.8	3.4	4.7	4.7
01 December 2017	1.8	3.5	4.7	4.7
01 March 2018	2.0	3.6	4.8	4.8

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. The 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to still be positive. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years. This is influenced by strong consumer demand buoyed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, worldwide economic statistics have distinctly weakened and the forecast was tempered by concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp increase from the current zero rate to around 1 percent in the second half of 2016. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The American economy made a strongly improved after a weak first quarter's growth at +0.6% (annualised), to 3.9% in quarter 2 of 2015. It weakened again to 2.1% in quarter 3. The negative news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major commodity suppliers was the main reason for the Fed's decision at its September meeting to postpone a rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a perception that global concerns have subsided, and this led to an increase of 0.25% in December.

In the Eurozone, the ECB announced in January 2015 a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016.This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) and +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the recent negative Asian results have raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Government to EU demands. The surprise general election in September gave the encumbeent Syriza government a mandate to stay in power to implement austerity measures. There remains major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been volatile during 2015 as alternating bouts of good and bad financial data have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in later times to finance new capital expenditure and/or to refinance maturing debt. Balanced against this is the cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.
The indicators are:
Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
Upper limits on fixed interest rate exposure. This gives a maximum limit on fixed interest rates;
Maturity structure of borrowing. These gross limits are sets a limit to reduce the exposure to large fixed rate sums falling due for refinancing, for both upper and lower limits.

The Commissioner is requested to approve the following treasury indicators and limits:

£m	2016-17	2017-18	2018-19	2019-20
Interest rate exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%	100%
Limits on fixed interest rates:				
• **Debt only**	100%	100%	100%	100%
• **Investments only**	100%	100%	100%	100%
Limits on variable interest rates				
• **Debt only**	50%	50%	50%	50%
• **Investments only**	100%	100%	100%	100%

Maturity structure of fixed interest rate borrowing 2016-2017		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years and above	0%	100%

3.5 Policy on borrowing in advance of need

The Commissioner's Office will not borrow more than, or in advance of its needs purely in order to profit from the investment of extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is considered.

Borrowing in advance will be made within the following constraints:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential 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 the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any potential 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.
All rescheduling will be reported to the Commissioner at the earliest opportunity.

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Commissioners investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioners investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the The Commissioner's Office has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA-. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

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. Thus providing security of investment and minimisation of risk.

4.2 Creditworthiness policy

The primary principle governing the Commissioner's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, The Commissioner will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.
-

The CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria has applied the lowest common denominator method of selecting counterparties and applying limits. This meant that the application of the Commissioners minimum criteria would apply to the lowest available rating for any institution. It is considered that by applying the highest available criteria would not significantly increase risk but may widen the pool of available counter parties. Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Commissioner criteria will be suspended from use, with all others being reviewed in light of market conditions. As the banking sector has stabilised a slight relaxation of the counterparty criteria is proposed. This will still give quality counterparties while increasing the opportunities to invest. Where a change is proposed the existing criteria is shown in brackets.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality **–** the Commissioner will only use banks which:
    i. are UK banks; and/or
    ii. and have as a minimum the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
        i. Short term – F1
        ii. Long term – A-

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Commissioners own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation -. The Commissioner will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

The above are limited to £5m for up to 3 months under current market conditions. Where the financial markets start to make an improvement the duration of the investment can be increased with the CFO's prior approval, under delegated powers, to no more than 12 months.

Where the Bank is A rated (long term) this is limited to £3m (previously £2m) for up to 100 days.

- Building societies will be used if it meets the ratings for banks outlined above.
- Money market funds with instant access – Limited to £7m in any one MMF, with delegated authority for the CFO to approve temporary increase to £10m.
- Enhanced money market funds with up to 7 day notice access - Limited to £3m in any one MMF, with delegated Authority for the CFO to approve temporary increase to £5m.
- UK Government (including gilts and the DMADF) - up to a limit of £10m up to 12 months.
- Local authorities, parish councils, other Police & Crime Commissioners etc - Limited to £5m with each for up to 2 years. The CFO under delegated authority can extend either the duration or the financial limit in specific cases.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 25%/£5m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings. Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to all investments. The time and monetary limits for institutions on the Commissioners counterparty list are as follows .

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1 higher quality	***AAA***	**£5m**	**1 yr**
Banks 1 medium quality	***AA-***	**£5m**	**1 yr**
Banks 1 medium/lower quality	***A***	**£4m**	**6 month**
Banks 1 Lower quality	***A-***	**£3m (£2m)**	**100 days**
Banks 2 – part nationalised	**N/A**	**£5m**	**1yr**
Banks 3 category – Commissioners banker (not meeting Banks 1)	**AA**	**£5m**	**1 day**
UK Govt - DMADF	**AAA**	**Unlimited**	**6 months**
Local authorities	**N/A**	**£5m**	**2 yr**
Enhanced money market funds with instant access	**AAA**	**£5-10m**	**liquid**
Enhanced money market funds with notice	**AAA**	**£3-5m**	**liquid**

The Commissioner is requested to approve changes to the counterparty criteria as follows:

- ***To use the highest available rating instead of the lowest common denominator.***
- ***To increase the value of investments in A- banks from £2 million to £3 million***

4.3 Country Limits

The Commissioner has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Approved countries for investments -

Based on lowest available rating

AAA	AA	A	AA-
Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland	Finland Hong Kong Netherlands U.K. U.S.A.	Abu Dhabi (UAE) France Qatar	Belgium Saudi Arabia

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016-2017 1.00%
- 2017-2018 1.75%
- 2018-2019 2.00%

There are downward and upward risks to these forecasts but overall the main risk is that increases in Bank Rate occurs later.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2016-2017 0.90%
- 2017-2018 1.50%
- 2018-2019 2.00%
- 2019-2020 2.25%
- 2020-2021 2.50%
- 2021-2022 3.00%
- 2022-2023 3.00%
- Later years 3.00%

Because of the risk of interest rates not rising as quickly as indicated a lower rate will be used in the budgets.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Commissioner is requested to approve the treasury indicator and limit:

Maximum principal sums invested > 364 days				
£m	**2015-16**	**2016-2017**	**2017-2018**	**2018-2019**
Principal sums invested > 364 days	5.000	5.000	5.000	5.000

For its cash flow generated balances, the The Commissioner's Office will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Commissioners maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.06% historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Commissioner seeks to maintain:

- Bank overdraft - £0.5m maximum
- Liquid short term deposits of at least £2.0m available on instant access.
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

4.6 End of year investment report

At the end of the financial year, the CFO will report on the investment activity as part of its Annual Treasury Report.

5. THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner. (CFO) is responsible for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- 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.