Nottinghamshire

POLICE & CRIME COMMISSIONER

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2017-18

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.

The values within the strategy have been rounded appropriately, and the extent of rounding is clearly labelled. This rounding will in some cases cause a note to be apparently mathematically incorrect.

1.3 Treasury Management Strategy for 2017-18

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 treasury management officers also receive training from Capita Asset Services.

1.5 Treasury management consultants

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

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 2016-17 – 2019-20

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	**2015-16 Actual**	**2016-17 Estimate**	**2017-18 Estimate**	**2018-19 Estimate**	**2019-20 Estimate**	**2020-21 Estimate**
Capital Programme	8.825	8.667	10.112	13.858	12.430	3.928
Financed by:						
Capital receipts	-1.369	-0.548	-2.828	-3.010	-2.595	0.000
Capital grants & contributions	-3.333	-1.465	-2.793	-0.631	-0.536	-0.456
Internal resources	0.000	0.000	0.000	0.000	0.000	0.000
Net financing need	**4.123**	**6.654**	**4.491**	**10.217**	**9.299**	**3.472**

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	2015-16 Actual	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Capital Financing Requirement						
Total CFR	53.762	58.143	59.775	66.898	72.633	72.115
Movement in CFR	**-**	**4.381**	**1.632**	**7.124**	**5.735**	**-0.518**

Movement in CFR represented by						
£m	**2015-16 Actual**	**2016-17 Estimate**	**2017-18 Estimate**	**2018-19 Estimate**	**2019-20 Estimate**	**2020-21 Estimate**
Net financing need for the year (above)	-	6.654	4.491	10.217	9.299	3.472
Less MRP/VRP and other financing movements	-	-2.273	-2.859	-3.093	-3.564	-3.990
Movement in CFR	**-**	**4.381**	**1.632**	**7.124**	**5.735**	**-0.518**

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 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. No change is proposed from last year.

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.

	2015-16 Actual	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Fund balances / reserves	15.298	12.796	13.795	14.794	15.793	17.793
Capital receipts	0.548	2.828	3.010	2.595	0.000	0.000
Provisions	3.592	3.592	3.592	3.592	3.592	3.592
Other	-1.994	-2.369	-2.369	-2.369	-2.369	-2.369
Total core funds	**17.444**	**16.847**	**18.028**	**18.612**	**17.016**	**19.016**
Working capital*	**-1.235**	**-4.357**	**-7.573**	**-12.873**	**-14.739**	**-18.185**
(Under)/over borrowing	**-7.011**	**-10.490**	**-8.455**	**-3.739**	**-0.277**	**1.169**
Expected investments	**9.198**	**2.000**	**2.000**	**2.000**	**2.000**	**2.000**

*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.

Ratio	2015-16 Actual	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
%	1.7	1.8	2.1	2.3	2.7	3.0

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

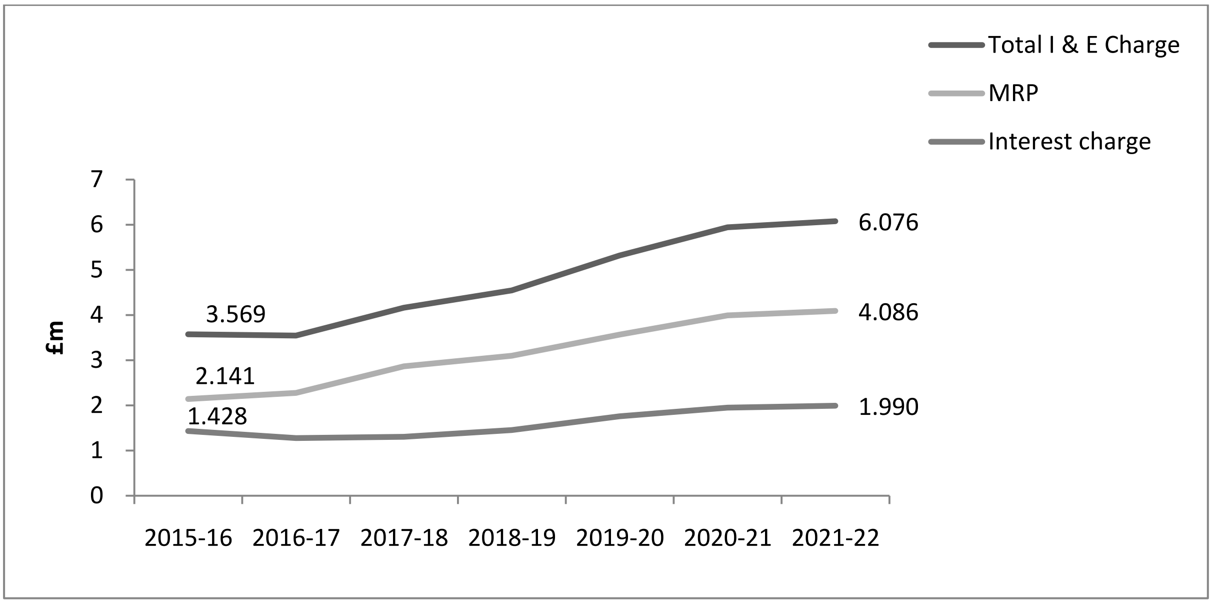
2.7 Incremental impact of capital investment decisions on council tax

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

Ratio	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
£	0.00	0.35	1.33	2.47	6.33

The table below shows the financial impact of capital expenditure and borrowing on the Revenue Account.



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.

3.1 Current portfolio position

The Commissioners treasury portfolio position at March 2017, 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.

£m	2015-16 Actual	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
External Debt						
Debt at 1 April	39.732	44.496	45.397	49.064	60.903	70.100
New Borrowing	29.000	2.000	7.340	12.798	10.173	4.381
Borrowing repaid	-24.236	-1.099	-3.673	-0.959	-0.976	-3.453
Movement in borrowing	4.764	0.901	3.667	11.839	9.197	0.928
Debt as at 31 March	**44.496**	**45.397**	**49.064**	**60.903**	**70.100**	**71.028**
Capital Financing Requirement	53.762	58.143	59.775	66.898	72.633	72.115
Other long-term liabilities (OLTL)	-2.256	-2.256	-2.256	-2.256	-2.256	-2.256
Underlying Borrowing Need	51.506	55.887	57.519	64.642	70.377	69.859
Under / (over) borrowing	**7.010**	**10.490**	**8.455**	**3.739**	**0.277**	**-1.169**
Investments						
Investments	9.198	2.000	2.000	2.000	2.000	2.000
Change in Investments	-3.131	-7.198	0.000	0.000	0.000	0.000
Net Debt	**35.298**	**43.397**	**47.064**	**58.903**	**68.100**	**69.028**

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 2016-17 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.

3.2 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.

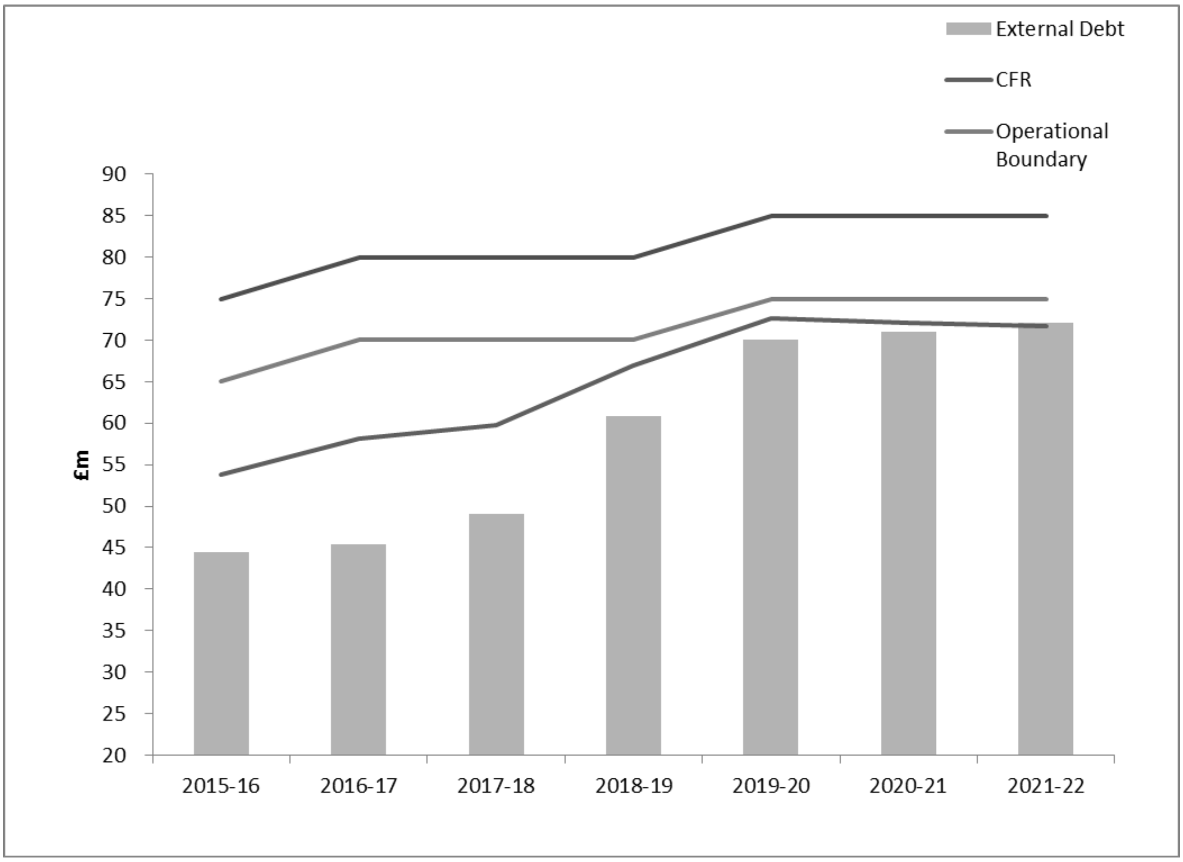
Operational boundary £m	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Total	70.000	70.000	70.000	75.000	75.000

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.

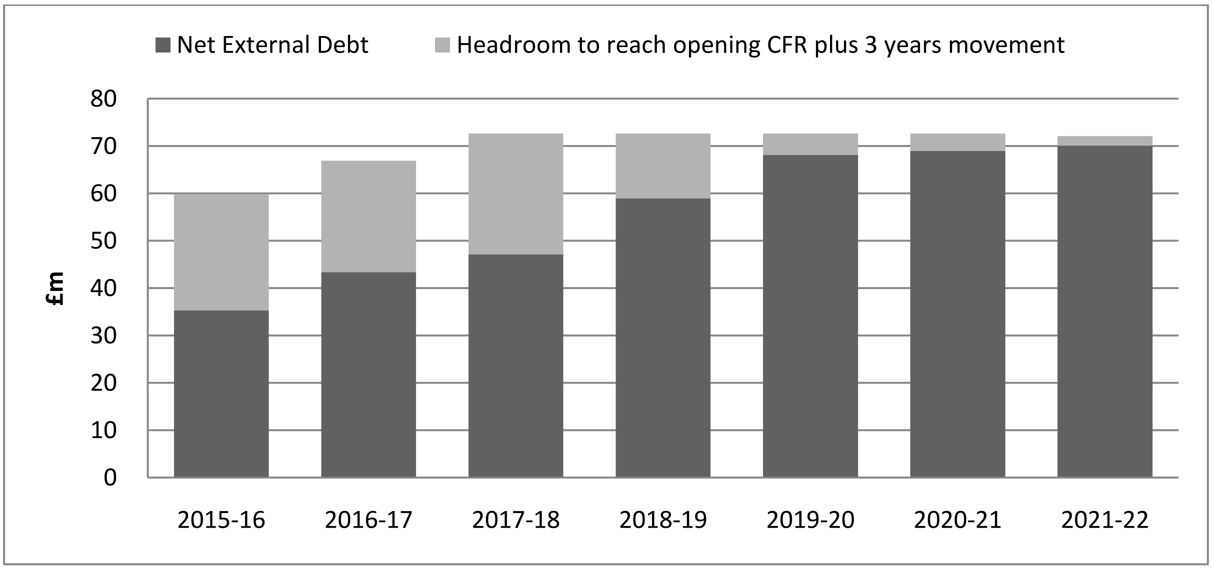
The Commissioner is requested to approve the following authorised limit:

Authorised limit £m	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Total	80.000	80.000	80.000	85.000	85.000

The table below shows CFR figures from paragraph 2.2 compared with relevant borrowing limits.



The table below shows the headroom available before CFR is breached.



3.3 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 (January 2017).

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Bank Rate was cut from 0.50% to 0.25% on 4th August in response to a forecast of a sharp slowdown in growth. It was also indicated that a further cut may be necessary. However, economic data since August has indicated a much stronger growth forecast. Also, inflation forecasts have risen substantially as a result of a persisting fall in the value of sterling. These 2 factors make a further cut in bank rate to be unlikely. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, such as raising the bank rate. Therefore the first predicted rise in base rate is at the end of this period in September 2019. Substantial growth from wage increases within the UK), could bring this forward. Extended Brexit negotiations could delay this..

The overall longer future trend is for gilt yields and PWLB rates to rise steadily. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. Quantitative easing as a response to the financial crash of 2008, has exacerbated the trend. The expected rise in the US Fed. rate is likely to increase the US bond yield and may influence bond yields internationally,.over the next few years. The level of domestic quantitative easing will have a large impact.

PWLB rates and gilt yields have been extremely volatile. This has been because of geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility will continue to occur for the foreseeable future. Downside risks include:

- Major economies failing to stimulate growth by monetary and fiscal policies
- European and worldwide political instability
- Continuing weakness in some European banks

The upside risks include:

- UK inflation rising strongly compared to other major economies
- Higher than anticpated increases in the US bank rate
- A downward grading to the UK's sovereign credit rating, undermining investor confidence in holding sovereign debt (gilts).

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

The policy of avoiding new borrowing by utilising cash balances, has served well over the last few years. However, the Chief Financial Officer will keep this situation under careful review to avoid incurring higher borrowing costs in future years when borrowing for capital purposes is essential.

Investment returns are likely to remain low during 2017-18 and beyond. There will therefore remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will incur a revenue cost – the difference 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	2017-18	2018-19	2019-20	2020-21
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** • **Investments only**	 100% 100%	 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates • **Debt only** • **Investments only**	 50% 100%	 50% 100%	 50% 100%	 50% 100%

Maturity structure of fixed interest rate borrowing 2017-2018		
	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%

3.4 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.

3.5 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.

3.6 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 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, organisations 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 the Chief Financial Officer understands the changes that have taken place, the strategy 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 viability of a financial institution.

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 Chief Financial Officer will maintain a counterparty list in compliance with the following considerations and will keep the criteria under review. 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 lowest credit rating from the main agencies is used when considering counterparties. It is considered that this does 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.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In addition to the considerations already outlined the limits in place will apply to a group of companies and 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: No changes are proposed.

	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	3 months
Banks 2 – part nationalised	N/A	£5m	1yr
Additional criteria for non UK Banks			
Sovereign	AA-		
Country		25%/£5m	
Banks 3 category – Commissioners banker (not meeting Banks 1)	N/A	£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	£10-15m	liquid
Enhanced money market funds with notice	AAA	£3-5m	liquid

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 kept up to in accordance with this policy. For information the UK has maintained an AA rating.

Approved Non UK countries for investments as at 16/12/2016-

Based on lowest available rating

AAA	AA+	AA	AA-
Australia Canada Denmark Germany Luxembourg Netherlands	Finland Hong Kong U.S.A.	Abu Dhabi France Qatar	Belgium

Norway Singapore Sweden Switzerland			

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 stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

There are downward and upward risks to these forecasts in view of the level of uncertainty it is not recommended that the interest levels be relied upon because of the uncertainty and in reality most investments are instant access, which attracts a lower interest rate and a lower rate incorporated in the budget.

The forecast 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:

2016-17	0.25%
2017-18	0.25%
2018-19	0.25%
2019-20	0.50%
2020-21	0.75%
2021-22	1.00%
2022-23	1.50%
2023-24	1.75%
Later years	2.75%

This is substantially lower than previously forecast.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days are limited with regard to liquidity requirements and to reduce the need for early redemption.

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

Maximum principal sums invested > 364 days				
£m	**2016-17**	**2017-2018**	**2018-2019**	**2019-2020**
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. SECTION 151 OFFICER ROLE

5.1 The Treasury Management Role of the Section 151 officer

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner 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.