

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2019-20

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1. INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (NOPCC) 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 NOPCC 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 NOPCC risk or cost objectives.

The responsible officer for treasury management is the 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 policies, estimates and actuals.

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

- A summary of the capital plans (see also the strategy report), prudential indicators and borrowing plans
- The 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
- The investment strategy (the parameters for managing investments)
- Information regarding non treasury investments such as property

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.

A detailed capital strategy report – contained in a separate report

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 2019-20

The strategy covers two main areas:

Capital issues

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

Treasury management issues

- current treasury position
- treasury indicators which limit the treasury risk and activities of the NOPCC
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy

- creditworthiness policy
- policy on use of external service providers
- Policy on use non financial investments

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance. The Prudential Code has been recently updated and has been fully adopted .

1.4 Treasury management consultants

NOPCC uses Link Asset Services as its external treasury management advisors.

NOPCC 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 advisors.

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.

1.5 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 formally delivered in March 2014, and the Chief Financial Officer to the Commissioner (CFO) has provided subsequent updates, after attending relevant seminars during the year. The officers involved in treasury management also receive training from Link Asset Services.

2. THE CAPITAL PRUDENTIAL INDICATORS 2019-20 to 2023-24

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. Full information regarding capital expenditure plans is included within the separate capital strategy report and capital programme report.

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	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Capital Programme	4.037	11.965	11.327	24.652	7.017	2.840	2.885
Financed by:							
Capital Receipts	0.000	(3.886)	(2.412)	(1.871)	(0.563)	0.000	0.000
Capital Grants & Contributions	(2.794)	(0.793)	(0.758)	(0.394)	(0.295)	(0.166)	(0.065)
Capital Reserve	0.000	0.000	(4.000)	(4.000)	(2.000)	(2.000)	0.000
Net Financing need	1.243	7.286	4.157	18.387	4.159	0.674	2.820

2.2 Commissioner's 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 financed 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 financed, 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:

Capital Financing Requirement (CFR)	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total CFR	57.705	62.201	63.399	77.945	78.089	74.745	72.813
Movement in CFR	(1.432)	4.496	1.198	14.546	0.144	(3.344)	(1.932)

Movement in CFR represented by	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Net financing need for the year (above)	1.243	7.286	4.157	18.387	4.159	0.674	2.820
Less MRP/VRP and other financing movements	(2.675)	(2.790)	(2.959)	(3.841)	(4.015)	(4.018)	(4.752)
Movement in CFR	(1.432)	4.496	1.198	14.546	0.144	(3.344)	(1.932)

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

2.3 Minimum Revenue Provision (MRP) policy statement

NOPCC 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. It is at the CFO's discretion to reverse these additional payments at future dates if deemed necessary or prudent. Payments included in annual PFI or finance leases are applied as MRP. The additional provision that has been made to date is shown in the table below:

Additional Revenue Provision	£m
2016-17	0.750
2017-18	0.250
Total Additional Provision	1.000

Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG.

2.4 Core funds and expected investment balances

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

	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Fund balances/Reserves	22.682	23.926	20.836	16.733	16.503	16.344	16.485
Capital Receipts	3.886	2.162	2.434	0.563	0.000	0.000	0.000
Provisions	4.385	4.385	4.385	4.385	4.385	4.385	4.385
Other	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)
Total Core funds	28.332	27.852	25.034	19.060	18.267	18.108	18.249
Working Capital*	(4.867)	(4.867)	(4.867)	(4.867)	(4.867)	(4.867)	(4.867)
(Under)/Over borrowing	(16.882)	(12.255)	(10.236)	(9.750)	(9.057)	(5.958)	(2.194)
Expected Investments	6.583	10.730	9.931	4.443	4.343	7.283	11.188

*Working capital balances shown are estimated as at the year end; these may vary throughout the year

2.5 Affordability

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.

This indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indication of the commitment from capital spending.

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

Ratio	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
	1.8%	2.1%	2.0%	2.5%	2.5%	2.5%	2.8%

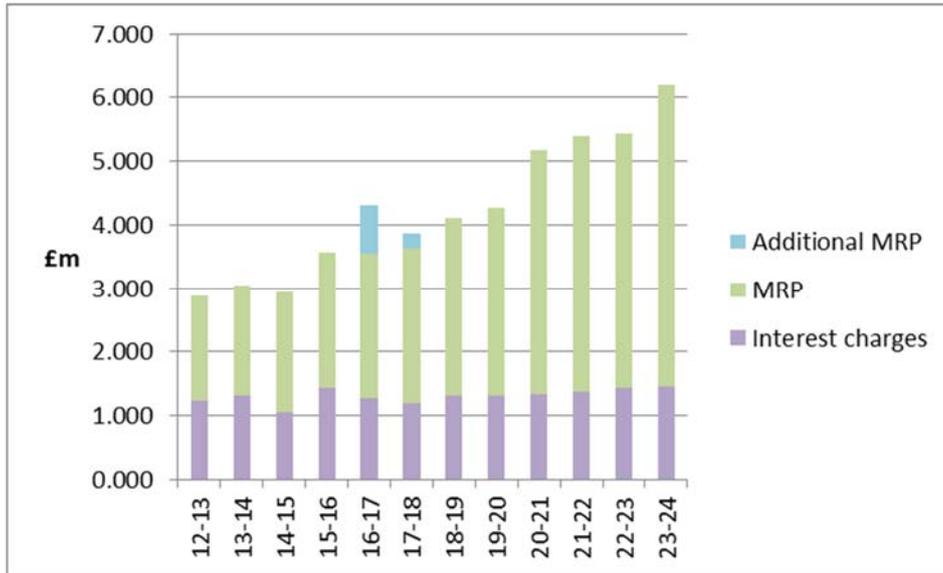
2.7 Incremental impact of capital investment decisions on council tax

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. Again this indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indicator of the commitment from capital spending.

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

Ratio	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
	£0.00	£1.20	£1.43	£4.52	£5.37	£5.69	£8.25

The graph below shows the financial impact of capital expenditure and borrowing on the Revenue Account:



3. BORROWING

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 the capital expenditure plan summarised in Section 2. This will involve both the organisation of the cash flow, including the arrangement of borrowing as appropriate. 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 borrowing portfolio position at March 2018, with forward projections is summarised below. The table shows external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
External Debt							
Debt at 1 April	40.704	37.169	46.292	49.509	64.541	65.378	65.133
New Borrowing	0.000	14.000	4.157	18.387	4.159	0.674	2.820
Borrowing Repaid	(3.535)	(4.877)	(0.940)	(3.355)	(3.322)	(0.919)	(0.988)
Movement in Borrowing	(3.535)	9.123	3.217	15.032	0.837	(0.245)	1.832
Debt as at 31 March	37.169	46.292	49.509	64.541	65.378	65.133	66.965
Capital Financing Requirement	57.705	62.201	63.399	77.945	78.089	74.745	72.813
Other longterm liabilities	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)
Underlying Borrowing Need	54.051	58.547	59.745	74.291	74.435	71.091	69.159
Under/(over) borrowing	16.882	12.255	10.236	9.750	9.057	5.958	2.194
Investments	6.583	10.730	9.931	4.443	4.343	7.283	11.188
Net Debt	30.586	35.562	39.578	60.098	61.035	57.850	55.777

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 his 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 2019-20 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 will be complied with 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

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.

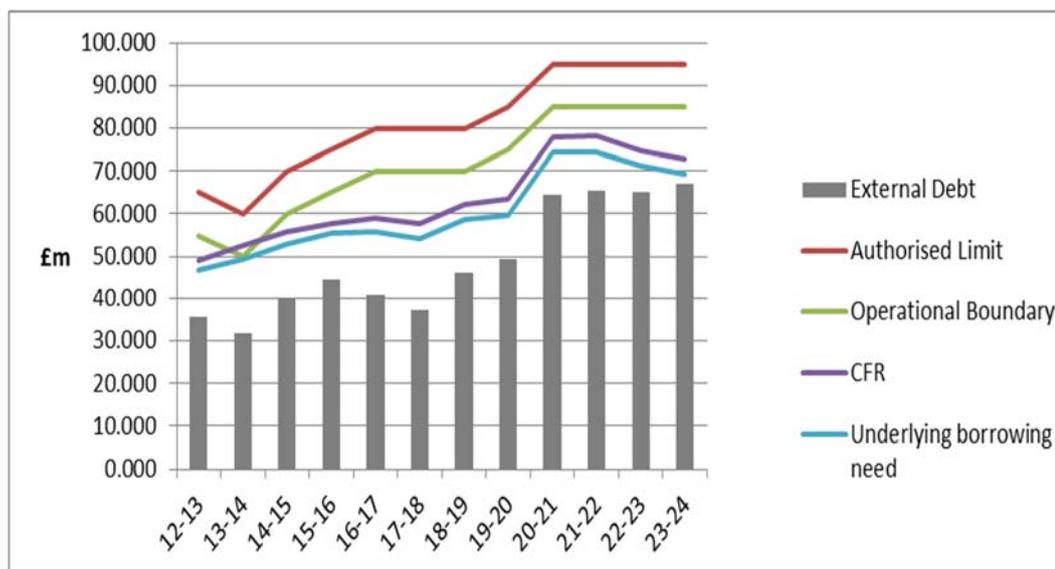
Operational Boundary	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m
	70.000	75.000	85.000	85.000	85.000	85.000

Authorised limit. A further key prudential indicator representing a control on the maximum level of borrowing. This is 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	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m
	80.000	85.000	95.000	95.000	95.000	95.000

The table below shows CFR and debt figures from paragraphs 2.2 and 3.1 compared with relevant borrowing limits.



3.3 Prospects for interest rates and economic background

One of the services provided by Link Asset Services is to assist the Commissioner in formulating a view on interest rates. The table below gives the view as at 09-01-19.

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the market stabilises post Brexit, and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. ***The above forecast, is based on a central assumption that there is an agreement on a reasonable form of Brexit.*** In that case, we think that the MPC could return to increasing Bank Rate in May 2019, with no further movements anticipated until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

The long-term trend is for a gentle rise in for gilt yields, and consequently PWLB rates but these can be impacted by unexpected global or UK events.

Rising bond yields in the US have also caused some upward pressure on bond yields for developed economies. However, the extent of that upward pressure has been dampened by the strength of the prospects for economic growth and rising inflation in each country, and on the level of quantitative easing and other credit stimulus measures.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth to be weaker than we currently anticipate, and increases in inflation
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system
- Weak capitalisation of some European banks
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases faster than currently expected
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields
- The impact of US fiscal policy reversing too quickly

Investment and borrowing rates

- Investment returns are likely to remain low during 2019-20 but to be on a gently rising trend over the next few years
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new

borrowing by running down spare cash balances has been appropriate over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future, when borrowing is essential

- There is a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances, being the difference between borrowing costs and investment returns. There is also an increased risk inevitable with all investments

Against this background and the risks within the economic forecast, caution will be adopted with the 2019-20 treasury operations. The CFO will monitor interest rates and financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to constrain 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 too restrictively 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 set to reduce the exposure to large fixed rate sums falling due for refinancing.

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

Upper Interest rate exposures 2019-20 to 2021-22	
Limits on fixed interest rates:	
• Debt only	100%
• Investments only	100%
Limits on variable interest rates	
• Debt only	50%
• Investments only	100%
Maturity structure of fixed interest rate borrowing 2019-20 to 2021-22	

	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

NOPCC 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
- Would not be 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 compared to the cost of debt repayment (premiums incurred). Also the current treasury position needs due consideration

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 possible that the Municipal Bond Agency, will be offering loans to Local Authorities in the near future at borrowing rates lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing if it becomes available.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

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

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the NOPCC has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. This enables diversification and avoids the concentration of risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, by actively engaging with advisors to maintain monitoring on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information regarding the banking sector. This allows a robust scrutiny process on investment counterparties.

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

4.2 Non-financial Investments Policy

Non-financial investments are essentially the purchase of income yielding assets. Currently radio masts are held and income is received for an item that is no longer operational. They were not acquired with that as a purpose, and were originally operational. The current income yield is circa £0.080m per annum. There is no

intention to purchase these kinds of investments and any divergence from this would be the subject of a future report.

4.3 Creditworthiness Policy

The primary criterion is the security of investments. The liquidity (availability) of the investments is secondary consideration. The yield (return) on the investment is also a further consideration. 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:
- 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 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 Link Asset Services, 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. Link Asset Services updates counterparties who qualify under the list on a daily basis.

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. Investments will only be made in sterling.

Use of additional information other than credit ratings - Additional requirements under the Code requires 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 and relevant news articles) 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. The range of values for Low Volatility Net Asset Value Funds and Ultra Short Dated Bond Funds have the lower limit being the 'normal limit' and above this being at the CFO's discretion.

	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	£8m	2 yr
Low Volatility Net Asset Value Funds (LVNAV) (Used to be called Enhanced money market funds with instant access)	AAA	£12/15m	liquid
Ultra Short Dated Bond Funds (Used to be called Enhanced money market funds with notice)	AAA	£3/5m	liquid

4.4 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. For information the UK has maintained an AA rating.

Approved Non UK countries for investments as at January 2019

Based on lowest available rating

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

4.5 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 (up to 12 months).

Investment returns expectations - On the assumption that the UK and EU agree a Brexit deal in spring 2019, then Bank Rate is forecast to increase steadily, but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The forecast earnings rates for returns on investments placed for periods up to 3 months are as follows:

- 2018/19 0.75%
- 2019/20 1.00%

- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.50%

Investment treasury indicator and limit - total principal funds invested for greater than 365 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 > 365 days	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
	5.000	5.000	5.000	5.000	5.000	5.000

There are currently no funds invested for greater than 365 days. For cash flow generated balances, the CFO will seek to utilise instant access and notice accounts, LVNAVs and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. Ultra Short Dated Bond Funds will be used if considered appropriate by the CFO.

4.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, and may be breached occasionally, depending on circumstances. The purpose of the benchmarks 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 Commissioner's 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 - avoided if possible
- Liquid short term deposits of at least £5.0m 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 is that investments achieve returns above the 7 day LIBID rate.

SECTION 151 OFFICER

5.1 Treasury Management Role

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner and they have responsibility 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