Section A For Publication

THE OFFICE OF POLICE AND CRIME COMMISSIONER FOR DERBYSHIRE

DECISION RECORD

Request for PCC Decision	Received in OPCC Date: 22 January 2019	OPCC Ref: 09/ 2019

PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION, TREASURY MANAGEMENT & INVESTMENT STRATEGY

Executive Summary:
The report contained information on the Capital Prudential Indicators for 2019/20 to 2021/22 (incorporating the Minimum Revenue Provision), the Capital Strategy, the Treasury Management Strategy 2019/22 and the Investment Strategy 2019/22 for approval.

Decision

1. That the Prudential Indicators and Limits for 2019/20 to 2021/22 contained within Appendix A of the report be approved.
2. That the Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the PCC's policy on MRP be approved.
3. The Capital Strategy within Appendix B be approved.
4. That the Treasury Management Strategy 2019/20 to 2021/22 and the treasury Prudential Indicators contained within Appendix C be approved.
5. That the Authorised Limit Prudential Indicator be approved.
6. That the Investment Strategy 2019/22 contained in the treasury management strategy (Appendix C), the counterparties in Appendix E and detailed criteria included in Appendix F be approved.

Declaration

I confirm that I have considered whether or not I have any personal or prejudicial

interest in this matter and take the proposed decision in compliance with the Code of Conduct for the Police and Crime Commissioner for Derbyshire. Any such interests are recorded below.

None

The above request has my approval.

Signature Hardyal Dhindsa	**Date 22 January 2019**

PUBLICATION SCHEME CONSIDERATIONS

Is the related Section B report to be published Yes

The report contains commercially sensitive information.

Is the publication of this approval to be deferred No

If Yes, provide reasons below

Date to be deferred to –

NB Statutory Instrument 2011/3050 (as amended by SI 2012/2479) states that: *all decisions made by a PCC are in the types of information that must "be published as soon as practicable after it becomes available to the elected local policing body".*

OFFICER APPROVAL

Chief Executive or Nominee:

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report.

I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner

Name Andrew Dale Date 22 January 2019

Derbyshire Police and Crime Commissioner

Protecting Communities, Fighting Crime

AGENDA ITEM

5D

STRATEGIC PRIORITIES ASSURANCE BOARD

REPORT TITLE	PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION, TREASURY MANAGEMENT & INVESTMENT STRATEGY
REPORT BY	JOINT REPORT OF THE CHIEF CONSTABLE, DIRECTOR OF FINANCE AND CHIEF FINANCE OFFICER
DATE	21 JANUARY 2019

PURPOSE OF THE REPORT

1.1 To consider and approve the Capital Prudential Indicators for 2019/20 to 2021/22 (incorporating the Minimum Revenue Provision), the Capital Strategy, the Treasury Management Strategy 2019/22 and the Investment Strategy 2019/22.

ATTACHMENTS

Appendix A. The Capital Prudential Indicators 2019/20 – 2021/22

Appendix B. Capital Strategy 2019/20

Appendix C. Treasury Management Strategy 2019/20 – 2021/22

Appendix D. Treasury Management Practice (TMP) 1 – Credit & Counterparty Risk Management

Appendix E. Approved Counterparties (based on credit ratings as at December 2018)

Appendix F. Detailed Criteria and Credit Ratings

RECOMMENDATIONS

1. That the Prudential Indicators and Limits for 2019/20 to 2021/22 contained within **Appendix A** of the report are approved.
2. That the Minimum Revenue Provision (MRP) Statement contained within **Appendix A** which sets out the PCC's policy on MRP be approved.
3. The Capital Strategy within **Appendix B** be approved.
4. That the Treasury Management Strategy 2019/20 to 2021/22 and the treasury Prudential Indicators contained within **Appendix C** be approved.
5. That the Authorised Limit Prudential Indicator be approved.
6. That the Investment Strategy 2019/22 contained in the treasury management strategy (**Appendix C**), the counterparties in **Appendix E** and detailed criteria included in **Appendix F** be approved.

CONTACT FOR ENQUIRIES

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2. INFORMATION AND ANALYSIS

2.1 As part of the budget setting process, it is a statutory requirement that the Police & Crime Commissioner (PCC) determines the Prudential Indicators and Treasury Management Policies and Procedures.

2.2 The Commissioner fulfils four key legislative requirements when setting prudential indicators and setting out the expected treasury operations.

2.3 The reporting of the prudential indicators considers the **affordability and impact of capital expenditure decisions.** They set out the organisation's capital framework and capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities) shown at **Appendix A**. The treasury management prudential indicators are included as treasury indicators in the CIPFA Treasury Management Code of Practice.

2.4 The Minimum Revenue Provision (MRP) Policy, which sets out how the organisation will pay for capital assets through revenue each year (as required by Regulation under the Local Authorities [Capital Finance and Accounting] [England] Amendment Regulations 2008) shown at **Appendix A**.

2.5 A requirement of the Prudential Code 2017 is that the Commissioner produces an **annual capital strategy**, this is shown in **Appendix B**.

2.6 The Treasury Management Strategy Statement sets out **how the organisation intends to finance its capital programme**. It shows how the treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the organisation could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code shown at **Appendix C**.

2.7 The Investment Strategy which sets out **how the organisation will manage its investments and limit its exposure to risk**. It sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Ministry for Housing, Communities and Local Government (MHCLG) Investment Guidance, and shown at **Appendix C**.

The Capital Prudential Indicators 2019/20 – 2021/22

Introduction

1. The Local Government Act 2003 requires the Commissioner to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or sets limits upon that activity, and reflects the outcome of the Commissioner's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2021/22. Where appropriate the 2017/18 Actual figures are provided for information.
2. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, the Commissioner to prepare a Capital Strategy report. The aim is to demonstrate that the Commissioner takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy is included in Appendix B.
3. Within this overall prudential framework there is an impact on the Commissioner's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2019/20 to 2021/22 is included as Appendix C to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

The Commissioner's Capital Expenditure Plans

4. The Commissioner's capital expenditure plans are the key driver of treasury management activity and form the first of the prudential indicators. A certain level of capital expenditure is grant-supported by the Government; any decisions by the Commissioner to spend above this level will be considered to be 'unsupported' capital expenditure. This unsupported capital expenditure needs to have regard to:
   - Service objectives (e.g. strategic planning);
   - Stewardship of assets (e.g. asset management planning);
   - Value for money (e.g. option appraisal);
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
   - Affordability (e.g. implications for the police precept);
   - Practicality (e.g. the achievability of the forward plan).
5. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the organisation's own resources.

6. This capital expenditure can be paid for immediately by applying capital resources such as capital receipts, capital grants etc or by applying revenue resources. However if the resources available are insufficient any residual capital expenditure will add to the Commissioner's borrowing need.

7. As described in the report on the proposed Capital Programme for 2019/23 presented to this meeting, capital grant allocations have been cut back drastically during the recent period of austerity and this trend has continued for 2019/20. At £0.637m the force's capital grant allocation for next year is very small in the context of the expenditure planned. Likewise, although some capital receipts are anticipated over the period, these are fairly limited as well.

8. The potential availability of reserves to help offset the borrowing need needs to be assessed in the context of the medium-term revenue projections up to 2022/23 and the likely implications for Reserves as a whole.

9. As set out elsewhere in papers for this meeting, it is anticipated that by 31 March 2019 overall reserve balances will be at their lowest level since 2005. This is mainly a result of the significant use of reserves to support capital investment over the last 3 years, including £16.8m towards the Constabulary's share of the cost of the new Joint Police and Fire Headquarters and Joint Training Centre/Firearms Range. By the end of this financial year, the use of reserves for investment purposes since 2015 will have reached £22m.

10. Going forward, whilst the settlement for 2019/20 announced in December was more positive than expected, the force needs to utilise the flexibility it provides to address priority areas in its revenue budget. These are set out in the Precept report. It is worth noting that a number of the areas being funded are IT-related and the expenditure is similar in nature to capital investment. However, the proposed delivery model means that the costs will need to be incurred within the revenue budget.

11. Therefore, given the above, it is assessed that it would not be prudent at this stage to release any further resources from the Operational Funding and Investment Reserve to support the proposed capital programme.

12. The Commissioner is asked to approve the summary capital expenditure projections in the table below, which also sets out how they are to be financed. This forms the first prudential indicator.

Capital Expenditure	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Expenditure	10.372	12.340	14.946	14.661	5.174
Financed by:					
Capital receipts	0.936	0.653	1.677	-	-
Capital grants/contributions	0.838	5.909	0.977	0.812	0.812
Capital reserves	6.086	1.464	-	-	-
Revenue Contributions	2.512	3.182	3.092	3.092	3.092
Net financing need for the year	**-**	**1.132**	**9.200**	**10.757**	**1.270**

The Commissioner's Borrowing Need (the Capital Financing Requirement)

13. 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 Commissioner's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The current Capital Programme for 2018/19 includes £1.132m borrowing, based on the latest capital outturn figures this is unlikely to be required. Borrowing will be required in 2019/20, 2020/21 and 2021/22.

14. 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 the MRP policy.

15. The CFR includes other long term liabilities (ie from PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so there is no requirement to separately borrow for these schemes. There are currently £10.254m of such schemes within the CFR.

16. The Commissioner is asked to approve the CFR projections below:

	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Financing Requirement					
Total CFR	**24.883**	**24.661**	**32.822**	**42.349**	**41.207**
Movement in CFR	**(1.377)**	**(0.223)**	**8.162**	**9.526**	**(1.142)**
Movement in CFR represented by					
Net financing need for the year (above)	-	1.132	9.200	10.757	1.270
Less MRP/VRP and other financing movements	(1.377)	(1.355)	(1.038)	(1.231)	(2.412)
Movement in CFR	**(1.377)**	**(0.223)**	**8.162**	**9.526**	**(1.142)**

Note: The MRP/VRP will include PFI lease annual principal payments

Minimum Revenue Provision (MRP) policy statement

17. The Commissioner is required to pay off an element of the accumulated capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP). He is also allowed to make additional voluntary payments (VRP).

18. CLG Regulations require the Commissioner to approve **an MRP Statement** in advance of each year. A variety of options are provided to Authorities, so long as there is a prudent provision. The Commissioner is recommended to approve the following MRP Statement.

19. For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be:
    - **Based on CFR** – MRP will be based on the CFR, being 2% straight line basis of the opening balance on the CFR for that year

20. From 1 April 2008 for all unsupported borrowing the MRP policy will be:
    - **Based on the Asset Life Method** – MRP will be based on the estimated life of the assets equal instalment method, in accordance with the regulations

    The only current unsupported borrowing is that used to fund the Centralised Contact Management Centre, which has an asset life of 50 years. The Constabulary's plans indicate that further unsupported borrowing will be needed in 2019/20 to 2021/22. It is assessed that this borrowing will be against assets with an average life of 25 years.

21. For Finance leases and PFI contracts that are deemed to be 'on balance sheet', the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

The Use of the Commissioner's Resources and the Investment Position

22. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund	4.000	5.500	5.500	5.500	5.500
Capital receipts unapplied	-	-	-	-	-
Earmarked reserves	19.727	13.328	11.645	8.225	5.156
Earmarked reserves – regional	0.755	0.500	0.500	0.500	0.500
Provisions	0.856	1.000	1.000	1.000	1.000
Unapplied Capital Grants	4.837	-	-	-	-
Total Core Funds	**30.175**	**20.328**	**18.645**	**15.225**	**12.156**
Working Capital*	0.500	(1.000)	(1.000)	(1.000)	(1.000)
Under Borrowing	(9.709)	(9.963)	(10.423)	(11.160)	(11.313)
Expected Investments at year end	**20.966**	**9.365**	**7.222**	**3.065**	**(0.157)**

*Working capital balances shown are estimated year end; these may be higher at various points throughout the year and the average will be considerably higher. The revenue budget will reflect the estimated interest received on the average cash balance.

23. The table above shows that under borrowing is estimated at £10.4m in 2019/20.

24. Whilst interest rates available on investments remains low and the Commissioner's longer term cash flow is favourable, it is cost-effective to use our own resources to fund capital expenditure at least in the short term. This means that although we are planning to take out additional external borrowing for new investment, we will not replace our current internal borrowing at the present time. If however we need to use more of our internal resources than currently forecast, we may eventually reach the point where we need to borrow to replenish the resources that we have used temporarily to fund our previous capital programme. This will be kept under review. The table above suggests we will not need to do this until 2020/21 at the earliest due to the underlying cash position.

Affordability Prudential Indicators

25. 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 Commissioner's overall finances.

26. **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. The indicator includes the cost of capital for PFI schemes.

	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Outturn £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Cost of Capital (1)	2.541	2.471	2.430	2.159	2.560	3.814
Investment Income (2)	(0.089)	(0.095)	(0.150)	(0.160)	(0.160)	(0.160)
Financing Costs (1)-(2)	2.452	2.376	2.280	1.999	2.400	3.654
Net Revenue Stream based on Council Tax increase	163.247	167.656	167.717	179.918	182.869	185.892
Percentage	1.50%	1.42%	1.36%	1.11%	1.31%	1.97%

27. The estimates of financing costs include current commitments and any arising from the capital programme. Investment income has been affected by the economic climate, the fall in interest rates and the more cautious approach to the treasury strategy. The base rate, however, increased from August 2018 so projected investment income increases in 2018/19 and this is projected to continue into future years.

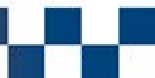
28. Financing costs have reduced in 2018/19 and 2019/20 due to the change in the MRP policy and increased investment income. By 2020/21 the full effect of the borrowing in previous years increases the financing costs, however, the costs continue to represent a relatively small proportion of the Commissioner's net revenue stream.

POLICE AND CRIME COMMISSIONER FOR DERBYSHIRE

AND

DERBYSHIRE CONSTABULARY

CAPITAL STRATEGY 2019/20



1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

1.2 This Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment by the Police and Crime Commissioner and informs decisions on capital spending priorities within his Police and Crime Plan.

1.3 The Capital Strategy has direct links to the other plans such as the Asset Management Plan and IT Strategy and forms a key part of the Commissioner's Medium Term Financial Strategy (MTFS).

1.4 Capital investment is technically defined as **"Expenditure on the acquisition, creation, or enhancement of 'non-current assets"**. This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 1. Expenditure outside this definition will be, by definition, revenue expenditure.

1.5 Most non-current assets are properties that are used in the delivery of quality policing services. The Commissioner's land and buildings asset base of some 35 properties has a current use Balance Sheet value of approx. £24.4 million. In addition the Commissioner has an interest in assets held by a Joint Venture Limited Liability Partnership with Derbyshire Fire and Rescue Service, which operates a Joint Headquarters and a Joint Training Centre/Firearms Range.

2. The Capital Strategy sets out the guiding principles on the following elements:

- The Capital Programme
- Approach to Borrowing
- Grants and Contributions
- Capital Receipts
- Revenue and Reserves
- Prioritisation and Approval

The Capital Programme

2.1 The Commissioner is responsible for determining the programme for capital investment in non-current assets that are central to the delivery of quality police services. Capital investment must meet the varying needs of Derbyshire Police, reflecting the Commissioner's priorities set out in his Police and Crime Plan and the Chief Constable's Delivery Plan, which sets out how the Chief Constable will deliver against the commitments in the Police and Crime Plan.

2.2 Annually the Commissioner in conjunction with the Chief Constable will prepare a capital programme outlining the estimated capital expenditure and funding over a minimum three year period.

2.3 The current key priorities of the Capital Programme include :-

- To ensure the property estate remains fit for purpose, identifying opportunities to collaborate with Derbyshire Fire and Rescue Service, develop the estate infrastructure, maintaining core sites and progress the Asset Management Plan.
- To ensure provision is made for ICT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.
- The maintenance and replacement of other core assets where necessary, e.g. vehicles and communication infrastructure.

2.4 The plans acknowledged the constrained financial position of the Constabulary and maximise both the available financial resources and the capacity that the Constabulary has to manage change projects.

2.5 The basis used for estimating the cost of schemes uses one or more of the following estimation techniques: -

- Analogue estimating, using cost data from previous schemes.
- Parametric estimating, using published data from specific reference sources.
- Bottom up estimating, using the professional judgement from appropriately qualified and experienced members of a project team.

2.6 In considering the principles, the Commissioner needs a balance between guidance and prescription to allow a flexible approach to be taken, but which is reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with the Commissioner's priorities and statutory responsibilities.

2.7 The management of the Capital Programme is also supported by the Commissioner's Financial Regulations.

Approach to Borrowing

2.8 The Commissioner is able to borrow money on the money market or from the Public Works Loans Board (PWLB) to fund capital schemes or, on a short term basis, use its own internal resources (i.e. cash flow). However, for all schemes initially funded from borrowing, the Commissioner will have to fund the repayment and interest costs as there is no central government "supported borrowing" allocations and related revenue support.

2.9 The Commissioner is only able to borrow for "unsupported borrowing" (also known as Prudential Borrowing) under the guidance contained in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code. In summary, the Commissioner is required to ensure that all borrowing is both prudent and affordable.

2.10 The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as the cash supporting reserves, balances and cash flow

has been used to pay for capital expenditure as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still of concern.

2.11 This policy also relies on the availability of internal resources and this will be kept under review as more work is done on identifying revenue requirements, in particular to address the existing and emerging policing risk and threat as well as funding required for new capital schemes.

2.12 The Commissioner takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case, to include forward predictions of affordability on the revenue budget and its ability to support the capital programme.

Grants and Contributions

2.13 The Commissioner receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies. However this funding is now at levels significantly lower than in the last decade.

2.14 The Commissioner continues to bid for additional external grant funding but restricts schemes to those which support his priorities or statutory service objectives and where it can be proved that the scheme is sustainable, and where requirements for match-funding and future revenue consequences have been considered and approved.

Capital Receipts

2.15 The Commissioner receives capital receipts from asset disposals. The Commissioner will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; e.g. by obtaining planning permission or providing a development plan. As appropriate the Commissioner may dispose of assets by tender or by public auction.

Revenue and Reserves

2.16 The Commissioner is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued uncertainty of central government funding, the Commissioner has to balance the use revenue contributions or reserve funds to directly fund capital schemes alongside the other operational and organisational needs of Derbyshire Police.

Prioritisation and Approval

2.17 It is always difficult to make choices between competing priorities within a service that has ever increasing demands from the public and the type of crime is also changing significantly, with ever more focus on protecting the vulnerable and a whole range of “new” crimes, such as modern slavery and human trafficking that were never envisaged even a few years ago.

2.18 The key stages in the Commissioner’s prioritisation and approval process are as follows: -

- If a specific scheme is requested to be approved/funded there will be a requirement for a detailed business case or scheme outline. Business cases are to be submitted to the Office for the Police and Crime Commissioner for review in consultation with the Chief Constable.
- The Capital Programme will be updated and any recommendations for schemes to be approved by the Commissioner included in the next Finance Briefing.

Monitoring and Performance

2.19 Monthly capital monitoring reports outlining progress against the approved programme will be prepared for the Commissioner.

2.20 The overall responsibility for the management and monitoring of the capital programme is undertaken by the Constabulary's Change Board. The Change Board's terms of reference also includes monitoring strategic and critical risk resulting from schemes, prioritising schemes and resources needed to deliver schemes, reporting on the benefits of schemes and capturing organisational learning through delivery of schemes.

2.21 A Strategic Estates Board has been established to look at how the Constabulary prioritise its Property investment and maintenance programme with a series of criteria around operational need and benefits. The Constabulary are looking at how its develops this further across other areas with a focus on:

- Further enhancement of business cases to include the full impact of proposals;
- The sustainability of proposals, in particular, the benefits realised through decisions and the 'cost of change'; and
- The cost effectiveness of the capital projects and how project managers demonstrate that.

2.22 A report detailing the Prudential Indicators will be prepared on a half yearly basis to comply with the Prudential Code for Capital Finance. Prudential Indicators not only help assess affordability, but also set performance measures.

Appendix 1 – Definition of Capital Expenditure

Capital investment is simply described as: -

This definition of capital expenditure that the Commissioner has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

"The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "proper practices""

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure: -

"Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"Directly attributable" means that, for examples, if building a police station, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as: -

"Expenses that make it probable that future economic benefits will flow to the Commissioner and whose cost can be measured reliably" subject to "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

Treasury Management Strategy 2019/20 – 2021/22

1. The treasury management service is an important part of the overall financial management of the Commissioner's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Commissioner's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures that the balanced budget requirement under the Local Government Finance Act 1992 is met. This broadly means ensuring that cash expenditure during the year is covered by cash raised.
2. The Commissioner's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This organisation adopts the Code of Practice on Treasury Management.
3. CIPFA defines treasury management as: -

   > *"The management of the [PCC's] investments and cash flows, his banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

4. The Commissioner is required to receive and approve, as a minimum, three main reports each year
   - **The annual Prudential and treasury indicators and treasury strategy** (this report) outlining:
     - the capital plans, (including prudential indicators);
     - 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; and
     - an investment strategy, (the parameters on how investments are to be managed).
   - **A mid year treasury management report**. This provides an update on progress against the indicators and on treasury management performance. The mid-year report is usually taken to the Strategic Priorities Assurance Board in November.
   - **An annual treasury management report.** This provides details of a selection of actual prudential and treasury indicators and Actual treasury operations compared to estimates within the strategy. The annual report is taken to the Strategic Priorities Assurance Board in June/July.
5. This annual strategy covers:
   - The Commissioner's debt and investment projections;
   - The estimates and limits on future debt levels (limits to borrowing);

- The expected movement in interest rates;
- The Commissioner's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

Debt and Investment Projections 2019/20 – 2021/22

6. The overall treasury management portfolio as at 31 March 2018 and for the position as at 28 December 2018 are shown below for both borrowing (excluding PFI – Other Long-Term Liabilities) and investments.

	Actual 31/03/18 £m	Actual 31/03/18 %	Current 28/12/2018 £m	Current 28/12/2018 %
Treasury Investments – Managed In house				
Commissioner's own banker	4.966	23.7	7.487	31.9
Building Societies - Rated	5.000	23.8	4.000	17.0
Local Authorities	11.000	52.5	12.000	51.1
Total Treasury Investments	**20.966**	**100%**	**23.487**	**100%**
Treasury External Borrowing				
Local Authorities – transferred Debt	0.200	4.1	0.200	4.4
PWLB	4.720	95.9	4.355	95.6
Total External Borrowing	**4.920**	**100%**	**4.555**	**100%**
Net Treasury Investments/ (borrowing)	**16.046**		**18.932**	

7. The Commissioner's forward projections for borrowing to 31 March 2022 are summarised below. The table below shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimated £m	2020/21 Estimated £m	2021/22 Estimated £m
External Debt					
Debt at 1 April	5.466	4.920	5.484	13.909	23.571
Expected change in debt	(0.546)	0.564	8.425	9.662	(0.041)
Other Long Term Liabilities	10.254	9.214	8.490	7.618	6.364
Gross Debt at 31 March	**15.174**	**14.698**	**22.399**	**31.189**	**29.894**
CFR	24.883	24.661	32.822	42.349	41.207
Under/ (over) borrowing	9.709	9.963	10.423	11.160	11.313

8. Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates within well-defined limits.
9. One of these is that the Commissioner needs to ensure that total 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 2018/19 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 or speculative purposes.
10. The Chief Finance Officer reports that the Commissioner complied with 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 the capital programme report.

Treasury Indicators - Limits to Borrowing Activity

11. **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed during the course of the year. It is not an actual limit and borrowing could vary around this boundary for short times during the year. The limit is set using the start of year external debt figures plus a contingency for the overdraft limit plus long-term liabilities (PFI).

Operational Boundary	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	6.5	14.9	24.6	25.8
Other long term liabilities	9.2	8.5	7.6	6.4
Total	**15.7**	**23.4**	**32.2**	**32.2**

The Operational Boundary estimates are currently substantially below the Capital Financing Requirement. This reflects the use of internal borrowing to fund parts of the Capital Programme in previous years. As and when external borrowing replaces the use of internal funds, the Operational Boundary will move closer to the CFR.

12. **The Authorised Limit for External Debt –** A further key prudential indicator represents a control on the overall 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.

13. The Authorised Limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority, although no control has yet been exercised.

14. The Commissioner is asked to approve the following Authorised Limit:

Authorised limit	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	14.0	22.4	32.1	32.0
Other long term liabilities	9.2	8.5	7.6	6.4
Total	**23.2**	**30.9**	**39.7**	**38.4**

15. The figures for the proposed authorised limit for 2019/20 take into account:

(a) The estimated amount of outstanding borrowing approvals on capital expenditure at 31 March 2019 (£5.363) plus outstanding borrowing of £0.121m regarding transferred debt from Derbyshire County Council and Derby City Council which arose upon reorganisation.

(b) Any new external borrowing for capital schemes during 2019/20 (external borrowing of £9.200m is planned in this year) less the estimated amount for debt redemption within 2019/20 loan charges (£0.775m).

(c) The amount of any short-term borrowing pending receipt of grant on capital schemes. The estimated maximum figure for 2019/20 is £0.5m.

(d) The amount of any short-term borrowing pending receipt of revenue income. This should be minimal, but in order to cover any unforeseen changes in cash flow patterns (for example the timing of receipt of Government Grants in 2019/20), it is suggested a figure of £8m be used.

(e) The figure for other long-term liabilities is an allowance for items such as the capital value of qualifying property leases or finance leases which may arise. The figure for 2019/20 includes £8.490m for PFI Liabilities.

16. Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £30.9m for 2019/20. Proposed limits for future years have been calculated in a similar manner taking into account the anticipated future borrowing requirements.

Expected Movement in Interest Rates

17. The Commissioner has appointed Link Asset Services as his treasury advisor and part of their service is to assist him to formulate a view on interest rates. The following table gives the Sector central view.

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%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment.

Unsurprisingly, the US Federal Bank (the Fed) has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10-year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10-year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

18. 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 while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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 reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing Strategy 2019/20 – 2021/22

19. The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as the cash supporting reserves, balances and cash flow has been used to pay for capital expenditure as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still of concern

20. This policy also relies on the availability of internal resources and this will be kept under review as more work is done on identifying revenue requirements, in particular to address the existing and emerging policing risk gap as well as funding required for new capital projects.

21. Against this background and the risks within the economic forecast caution will be adopted with the treasury management operations in 2019/20. As a result, the Commissioner will take a pragmatic approach to its treasury strategy, enabling him to respond to either of 2 scenarios:

    - if it is assessed that there is a significant risk of a sharp **fall** in long and short-term rates (eg. due to a marked increase of risks around relapse into recession or of risks of deflation), then further long-term borrowing will be postponed

    - if it is assessed that there is a significant risk of a much sharper **rise** in long and short-term rates than that currently forecast then the borrowing position may be re-assessed with a view to taking out new borrowing before the interest rates rises take effect. This may occur in advance of need, in terms of relevant expenditure within the Capital Programme. In such a case, a clear business case would be presented to support this course of action.

22. It is currently assumed that external borrowing will take place during 2019/20 to 2021/22.

23. The main source of new loans has previously been the Public Works Loans Board (PWLB), and it is estimated that all of the Commissioner's borrowing requirements could be sourced from here. Historically the PWLB has offered the lowest rates. However, the banking sector may be competitive from time to time. Consequently, it is recommended that the approved source of borrowing should be both the PWLB and the London Money Market.

24. In 2012/13 the Government introduced the 'certainty rate' discount on PWLB loans which enables eligible local authorities to access cheaper borrowing. This gives a 20 basis points discount on loans from the

PWLB. Borrowing would have to feature in the force's long-term plans in order for it to qualify for this discount.

25. **Policy on borrowing in advance of need.** The Commissioner will not borrow more than, or in advance of, its needs purely to benefit from the investment of extra sums borrowed. As stated above, any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and security of such funds be obtained.

26. **Debt Rescheduling/Repayment** – Consideration will be given to rescheduling or repayment of debt prematurely. Any savings from rescheduling/repayment of debt would have to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). No such rescheduling or early repayment is currently planned during the period covered by this report.

27. **Prudential Indicator on Maturity structures of borrowing**

The maturity profile is the rate at which long-term loans have to be repaid to the PWLB (or other lenders). It would be imprudent to have a large proportion of repayments in any one year, thus a spread of redemption is desirable.

Currently most of the Commissioner's loan debt is repayable over a period of 25 years. One loan is repayable on maturity in 2025/26.

The maturity structure is a prudential indicator under the Code, with lower and upper limits recommended as shown in the table below.

Maturity Structure of fixed interest rate borrowing			
		2019/20	**Currently**
Under 12 months	Lower-Upper	0%-10%	9.5%
12 months to 2 years	Lower-Upper	0%-10%	9.5%
2 years to 5 years	Lower-Upper	0%-30%	25.3%
5 years to 10 years	Lower-Upper	0%-45%	37.3%
10 years and above	Lower-Upper	10%-90%	18.4%

The Commissioner has variable interest rate borrowing with regard to transferred debt from Derbyshire County Council and Derby City Council. The amount outstanding at 31 March 2019 is £0.121m. This is considered low risk with regard to maturity.

Investment Strategy 2019/20 – 2021/22

28. **Investment Policy -** The Commissioner's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the Code") and the CIPFA Treasury Management Guidance Notes 2018. The Commissioner's primary objectives are: first – security, meaning safeguarding the repayment of the principal and interest of his investments on time; and second - ensuring adequate liquidity. The investment return obtainable is then a third objective.

29. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Commissioner applies minimum acceptable credit criteria to create a list of highly creditworthy counterparties for inclusion on the lending list. This enables diversification and thus avoidance of concentration risks

30. The Commissioner's officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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.

31. Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

32. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus the avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

33. Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories.

Creditworthiness policy

34. 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:

    - He maintains a policy covering both the categories of investment types he will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
    - He has sufficient liquidity in his investments. For this purpose he 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.

35. The Chief Finance Officer 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 those which determine Specified and Non-Specified investments (see Appendix D) as they provide an overall pool of counterparties considered high quality that the PCC may use, rather than defining what types of investment instruments are to be used.

36. Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes are provided to officers almost immediately after they occur and this information is considered before dealing.

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

- **Banks/Building Societies 1 - Good Credit Quality** – the Commissioner will only use UK banks and Building Societies which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    1. **Short Term Rating-** F1 (or equivalent) from Fitch, Moody's (P-1) or S&P's (A-1)

    2. **Long Term Rating-** A (single A category) or equivalent from Fitch, Moody's or S&P's.

- **Banks 2** – Part nationalised UK bank - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or it meets the ratings in Banks 1 above.
- **Banks 3** - The Commissioner's 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.
- **UK Government** (eg Debt Management Account Deposit Facility (DMADF))
- **Local Authorities**
- **Money Market Funds –** "AAA" rated by Fitch, Moody's and S&P

38. **Country and sector considerations** – the Commissioner will only invest in UK banks and building societies with the above ratings.

39. **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 rely 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. This additional market information (for example negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties on the approved list.

40. **Time and Monetary Limits applying to Investments** – The time and monetary limits for institutions on the Commissioner's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch (or equivalent)	**Money Limit (group)**	**Time Limit**
Banks/Building Societies 1 - Upper Limit	*F1+ (S/T)* *AA- (L/T)*	£10m (£3m if > 365 days)	2yrs
Banks/Building Societies 1 – Middle Limit	F1 (S/T) A- (L/T)	£6m	1yr
Banks 2 Part nationalised banks	N/A	£10m	1yr
Banks 3 PCC's banker		£10m	1yr
Money Market Funds	AAA	£10m	1yr
Debt Management Account Deposit Facility		£35m	1yr
Local Authorities		£30m (£6m per authority)	1yr

Note – In addition to the above on a temporary basis and subject to approval by the Chief Finance Officer or the Director of Finance:
1) an additional £2m (increases amount to £12m) can be invested with Barclays Bank for a maximum of 5 days
2) upon receipt of the Pension Top-Up Grant in July it may be necessary to invest up to £40m with Local Authorities

41. The proposed criteria for Specified and Non-Specified investments are shown in Appendix D for approval.

42. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Commissioner's liquidity requirements are safeguarded. This will also be limited by the longer-term investment limits.

43. The list of counterparties (who currently meet these criteria) for approval is attached at Appendix E along with their current ratings and limits. Definitions of credit ratings are shown in Appendix F.

44. **UK Banks (ring fencing)** – The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

45. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

46. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Commissioner will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Investment Strategy

47. **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). While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.
    - If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
    - Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

48. **Investment returns expectations.** Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 of 2022. Bank Rate forecasts for financial year ends (March) are:
    - 2018/19 0.75%
    - 2019/20 1.25%

- 2020/21 1.50%
- 2021/21 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken there could be upside risk.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst the Commissioner is asked to approve these base criteria, under the exceptional current market conditions the Chief Finance Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Investment treasury indicator and limit

49. **Total principal funds invested for over a year**

These limits are set with regard to the Commissioner's 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. A limit for lending for more than one year is set out below:

Maximum principal sums invested over a year			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested over a year	£3m	£3m	£3m
Current investments at 28 December 2018 in excess of 1 year	-	-	-

End of year investment report

50. At the end of the financial year, the Commissioner will report on his investment activity as part of his Annual Treasury Management report.

Policy on the use of external service providers

51. The Commissioner uses Link Asset Services, Treasury Solutions as its external Treasury management advisors. The company provides a range of services which include:

    - Technical support on treasury matters, capital finance issues and the drafting of reports;
    - Economic and interest rate analysis;
    - Debt services which includes advice on the timing of borrowing;
    - Debt rescheduling advice surrounding the existing portfolio;

- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

52. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice responsibility for the final decision on treasury matters remains with the organisation at all times.

53. The terms under which Link Asset Services are employed and the services provided are properly agreed and documented, and are subject to regular review.

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Commissioner's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for organisations to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires that the Commissioner have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Commissioner will apply its principles to all investment activity. In accordance with the Code, the Treasury has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- The Specified investments the Commissioner will use, as defined below.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Commissioner is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority.
3. A body that is considered of a high credit quality (such as a bank or building society). For category 3 this covers bodies with a minimum short

term rating of F1 (or the equivalent) as rated by Fitch, Moody's (P-1) or Standard and Poor's (A-1) rating agencies.

4. Part nationalised UK banks, if they continue to be part nationalised or they meet the criteria in *(3)* above.
5. Money Market Funds that have been awarded a high credit rating (AAA) by Fitch, Moody's or Standard and Poor's rating agencies.

Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are shown in paragraph 40 of Appendix C.

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Commissioner is required to look at non-specified investments in more detail. He must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Commissioner should approve categories on an annual basis
- advice should be provided by the Chief Finance Officer to the Commissioner
- priority should be given to security and liquidity ahead of yield

On this basis the following categories of non-specified investments are currently considered as prudent and are recommended for use:

(a) investments in excess of a year but for not more than 2 years duration with counter-parties on the Commissioner's list provided that they have

Short Term - F1+ (or equivalent from Moody's and Standard & Poors)
Long Term – AA- or better (or equivalent from Moody's and Standard & Poors)

(b) the Commissioner's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

It is recommended that the limit for category (a) should be set at £1m per counterparty subject to an overall limit of £3m. Whilst most of the Commissioner's surpluses are of a temporary nature, others such as the insurance provision and PFI reserves could reasonably be invested for periods in excess of one year. These instruments will only be used where the Authority's liquidity requirements are safeguarded. For category (b) balances will be minimized as far as is possible in the event of the bank falling below the basic criteria.

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. No further investment will be made with any counterparty failing to meet the criteria. If required, new counterparties which do meet the criteria will be added to the list under the delegated authority of the Chief Finance Officer and any changes will be reported to a later Strategic Priorities Assurance Board.

List of Approved Counterparties for Lending for Police & Crime Commissioner for Derbyshire.

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty		Fitch Ratings			Moodys Ratings			S&P Ratings								
			Long Term	Short Term		Long Term	Short Term		Long Term	Short Term	Band Name	CDS Price	CDS Status	Monetary Limit	Duration	Notes
United Kingdom		NO	AA		SB	Aa2		NO	AA			35.43				
AAA rated and Government backed securities	Debt Management Office										Debt Management Office			35 Million	6 Months	(M)
Banks	Bank of Scotland PLC (RFB)	SB	A+	F1	SB	Aa3	P-1	SB	A+	A-1	Uk Banks Low	69.93	●	6 Million	1 Years	
	Barclays Bank PLC (NRFB)	SB	A+	F1	SB	A2	P-1	SB	A	A-1	Barclays - Council's Bank	95.02	●	10 Million	1 Years	(M) Council's Bank
	Barclays Bank UK PLC (RFB)	SB	A+	F1	SB	A1	P-1	SB	A	A-1	Uk Banks Low			6 Million	1 Years	
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				Uk Banks Low			6 Million	1 Years	
	Goldman Sachs International Bank	SB	A	F1	NO	A1	P-1	SB	A+	A-1	Uk Banks Low	101.29	●	6 Million	1 Years	
	Handelsbanken Plc	SB	AA	F1+				SB	AA-	A-1+	UK Banks High			10 Million	1 Years	£3 Mln/2 Yrs
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	SB	Aa3	P-1	SB	AA-	A-1+	UK Banks High	49.67	●	10 Million	1 Years	£3 Mln/2 Yrs
	HSBC UK Bank Plc (RFB)	SB	AA-	F1+				SB	AA-	A-1+	UK Banks High			10 Million	1 Years	£3 Mln/2 Yrs
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A	F1	SB	A1	P-1	SB	A	A-1	Uk Banks Low			6 Million	1 Years	
	Lloyds Bank Plc (RFB)	SB	A+	F1	SB	Aa3	P-1	SB	A+	A-1	Manual Inclusions (P/N)	73.56	●	10 Million	1 Years	(M)
	Santander UK PLC	SB	A+	F1	PO	Aa3	P-1	SB	A	A-1	Uk Banks Low			6 Million	1 Years	
	Standard Chartered Bank	SB	A+	F1	SB	A1	P-1	SB	A	A-1	Uk Banks Low	62.41	●	6 Million	1 Years	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1	SB	A1	P-1	PO	A	A-1	Uk Banks Low	60.04	●	6 Million	1 Years	
	UBS Ltd.	SB	AA-	F1+	SB	Aa3	P-1	SB	A+	A-1	Uk Banks Low	48.22	●	6 Million	1 Years	
Building Society	Coventry Building Society	SB	A	F1	SB	A2	P-1				Uk Banks Low			6 Million	1 Years	
	Nationwide Building Society	SB	A	F1	NO	Aa3	P-1	PO	A	A-1	Uk Banks Low			6 Million	1 Years	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	PO	A1	P-1	PO	A-	A-2	Manual Inclusions (P/N)			10 Million	1 Years	(M)
	The Royal Bank of Scotland Plc (RFB)	SB	A+	F1	PO	A1	P-1	PO	A-	A-2	Manual Inclusions (P/N)			10 Million	1 Years	(M)

Advisory notes:

Local Authorities - 1 Year - £30 Million / £6 Million per LA

Money Market Funds - Unlimited - £10 Million

1Year / £10M - 2 Years/ £3M

In addition to the limits set out - on a temporary basis and subject to approval by the Chief Finance Officer or Director of Finance, an additional £2m can be invested with Barclays Bank for a maximum of 5 days.

(M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

Credit Ratings

Definition - Short-Term Bank Deposit Ratings (Fitch)

F1 - Highest credit quality.
Indicates the strongest capacity for timely payment of financial commitments; may have an added '+' to denote any exceptionally strong credit feature.

F2 - Good credit quality.
A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3 - Fair credit quality.
The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.

B - Speculative.
Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C - High default risk.
Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

D - Default.
Indicates an entity or sovereign that has defaulted on all of its financial obligations.

Definition - Long-Term Bank Deposit Ratings (Fitch)

AAA – Highest credit quality.
'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA – Very high credit quality.
'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments . This capacity is not significantly vulnerable to foreseeable events.

A – High credit quality.
'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances and economic conditions than is the case for higher ratings. Susceptibility to long term risks appears somewhat greater.

BBB - Good credit quality.
'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.