



west midlands  
police and crime  
commissioner



AGENDA ITEM 7

**JOINT AUDIT COMMITTEE  
31st MARCH 2016**

## **TREASURY MANAGEMENT STRATEGY 2016/17 REPORT**

### **1. PURPOSE OF REPORT**

- 1.1 This report sets out the Police and Crime Commissioner's Treasury Strategy Statement 2016/17 and updates on debt management activity and investment activity during the financial year 2015/16.
- 1.2 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management.
- 1.3 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and his treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

### **2. INTRODUCTION AND BACKGROUND**

- 2.1 The Commissioner is legally required to produce an Annual Investment Strategy. Therefore, included is an Investment Strategy as part of the Treasury Strategy Statement shown in Appendix B.
- 2.2 **In order to protect the Commissioner's position if an individual or organisation were to act upon this advice, it is deemed necessary to produce a disclaimer, which is shown as a note at the head of Appendix B.**
- 2.3 The Commissioner is responsible for administering a Capital Programme of £117.7m between 2015/16 and 2019/20. As far as possible all surplus revenue money and other

reserves are invested on a daily basis until they are required.

2.4 The Commissioner follows the Code of Practice for Treasury Management produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code emphasises the following key points:

- The Commissioner must formally adopt the Code.
- The strategy report will affirm that the effective management and control of risk are prime objectives.
- The Commissioner's appetite for risk must be clearly identified within the strategy report and the priority given to security of capital and liquidity when investing funds and an explanation as to how that will be carried out.
- Responsibility for risk management and control lies within the organisation.
- Credit ratings should be used as a starting point when considering risk but use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- The Commissioner needs a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- Borrowing in advance of need is only allowed when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- There needs to be, at a minimum, a mid year review of treasury management strategy and performance to highlight any areas of concern that have arisen since the original strategy was approved.
- The Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
- Treasury management performance and policy setting should be subjected to prior scrutiny.
- The Commissioner, and his staff, should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.

2.5 The Commissioner's Treasury Management activity is governed by the following documents:

- 1 Treasury Policy Statement.** This is a statement, defining treasury management and the general approach to it. It emphasises firstly the control of risk and secondly the pursuit of best value as the main factors defining the approach. A copy is attached at Appendix A.
- 2 Treasury Management Practices (TMPs) and Schedules to TMPs.** TMPs define the overall approach to various aspects of treasury management, including such things as risk management, performance monitoring and management, segregation of duties and dealing arrangements, cash flow management, money laundering and staff

training. The Schedules to TMPs deal with the criteria for selecting third parties (banks and building societies) with whom the Commissioner is prepared to deposit funds. The TMPs and Schedules are reviewed regularly by the Commissioner's CFO and copies are available on request.

**3 Annual Treasury Strategy Statement** details the expected activities of the treasury function in the financial year 2016/17. A copy is attached at Appendix B.

### **3. DEBT MANAGEMENT ACTIVITY 2015/16**

3.1 Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board to finance major capital expenditure. All the borrowing was transferred to the Commissioner in November 2012.

3.2 Borrowing at the 31<sup>st</sup> March 2016 will total £47.2m all at fixed rates and repayable over various periods up to 2061.

3.3 The Commissioner has the capacity to undertake variable rate borrowing (up to 20% of the total debt portfolio) should the need arise or to take advantage of favourable rates to fund identified need.

3.4 A £2m loan matured in October 2015 and was repaid in full, reducing the average rate of interest on debt from 4.84% to 4.56%. Capita, the Commissioner's treasury advisors, continue to advise on debt restructuring to enable the Commissioner to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets. There were no opportunities for this during 2015/16.

3.5 The table below shows that the reduction in the level of borrowing during 2015/16 and the average interest rate is now 4.56%:

<b>PWLB Borrowing</b>				
<b>Loan Type</b>	<b>Borrowing £'m</b>		<b>Average Interest Rates %</b>	
	<b>2014/15</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Fixed</b>	<b>49.2</b>	<b>47.2</b>	<b>4.84</b>	<b>4.56</b>
<b>Variable</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>49.2</b>	<b>47.2</b>	<b>4.84</b>	<b>4.56</b>

### **4. INVESTMENT ACTIVITY 2015/16**

4.1 Any surplus funds have been invested on a daily basis. The target was to achieve an average return on investments as close as possible to the 3 month London Inter Bank Offer Rate (LIBOR).

4.2 Interest earned on investments up to the end of March is predicted to average 0.69%, approximately 11 basis points above the average return on 3 month LIBOR (0.58%) as at 29/02/16. This represents good performance given the continued depressed state of the money markets and the continued low Base Rate.

4.3 In the 2015/16 report the Commissioner approved a revised list of counter parties with whom investments could be placed. This list has been updated during the year to take

account of the effects of the national economic conditions and the significant amounts invested (at the 7th March 2016, the Commissioner had £183m invested with a range of maturity dates between one day and four and a half years).

- 4.4 All of the Commissioner's investments are with UK based entities: 73% Local Authorities, 22% British Banks, 5% Building Societies.
- 4.5 Since the final recovery in January 2014 of investments frozen in the Icelandic bank Landsbanki, the Commissioner has held no investments with foreign banks.
- 4.6 Based on market information provided by Capita, the counter party list has been fully reviewed to reflect: current market conditions, credit ratings of sovereign nations, and the impact of Government support for the banking sector. As a consequence the limits, both financial and for duration, have been adjusted for some institutions. Specifically the group and individual limits (£60m) for the part government owned institutions (National Westminster Bank, Royal Bank of Scotland) have been retained as it is considered that they are less risky than other UK institutions that are not directly supported by the government.
- 4.7 If institutions now fall below the set criteria they have been removed from the list and added if they become eligible. A copy of the latest list, which will be kept under review by the Commissioner's CFO, in accordance with the TMP Statements, is attached at Appendix C. Details of the criteria are contained within the annual investment strategy in Appendix B.
- 4.8 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Resources. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Resources and the Commissioner's CFO. This will continue for the next financial year.

## **5. TREASURY STRATEGY STATEMENT 2016/17**

- 5.1 The Treasury Strategy Statement covers the Commissioner's latest capital funding requirements, view of interest rate movements, and strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The Treasury Strategy Statement for 2016/17 is attached at Appendix B.
- 5.2 The expectations for interest rates over the next twelve months, which will be subject to continuous review with the Commissioner's treasury advisors, are as follows:

### **Short-term rates.**

- The Bank of England Base Rate has been unchanged at 0.50% since March 2009 and is forecast to remain unchanged during much of 2016/17 but may rise from March 2017 to reach 1.00% by September 2017.
- Growth in the UK economy is expected to remain slow because of the wider global economic conditions. As Base Rate underpins investment returns it is unlikely that this forecast is an under estimate especially if the economic recovery is weaker than currently anticipated or there is negative fallout from the EU referendum.
- The low interest rates will continue to depress future interest receivable estimates and an average investment return as low as 0.60% on new investments made in 2016/17 can be expected.

### **Long-term rates.**

- Very long term rates (50 year PWLB rate) are expected to be around 3.20% for most of 2016/17.
- Long term rates (25 year PWLB rate) are also expected to be around 3.20% during 2016/17.
- The view of long term rates will affect the borrowing strategy in 2016/17. Although borrowing rates are currently attractive, they should remain low for some time. The timing of any borrowing will need to be monitored carefully. Any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

5.3 The Local Government Act 2003 introduced a new system of “prudential borrowing” which allows the Commissioner to set borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code that specifically requires a number of prudential indicators are set. The full range of prudential indicators was considered when the 2016/17 Budget and Precept were agreed in February 2016. This is particularly relevant when set in the context of the overall limitation of planned capital resources and therefore a potential increase in prudential borrowing across the medium term plan. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

5.4 The Local Government Act 2003 also requires the Commissioner to set out a treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Commissioner’s policies for managing investments and for giving priority to the security and liquidity of those investments.

## **6. FINANCIAL IMPLICATIONS**

6.1 The financial implications of the Treasury Management function are included in the Commissioner’s annual budget. The estimated total net cost of capital financing in 2016/17 (including direct charges to revenue) is £3.2m.

## **7. LEGAL IMPLICATIONS**

7.1 These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Commissioner to do anything which is calculated to facilitate or is conducive or incidental to the discharge of their various statutory functions.

7.2 Adoption of the CIPFA Code of Practice on *Treasury Management in the Public Services* as part of the Commissioner's Standing Orders and Financial Regulations gives it the status of "a code of practice made or approved by or under any enactment" and hence proper practice under the provisions of the Local Government and Housing Act 1989.

7.3 The Commissioner’s CFO continues to delegate the responsibility for the discharge of Treasury Management on a daily basis to the Director of Resources through the appropriate Finance Department staff.

## **8. EQUALITY IMPLICATIONS**

- 8.1 Any issues of Equality and Diversity that may arise during the undertaking of Treasury Management activities will be noted, considered and reported upon.

## **9. RECOMMENDATIONS**

- 9.1 It is recommended that the Joint Audit Committee:

- a. note the treasury management activity in 2015/16 set out in paragraphs 3 and 4, and the interest rate observations in paragraph 5.
- b. approve the Treasury Strategy Statement for 2016/17 set out in Appendix B.
- c. approve the criteria for selecting counter parties in Appendix B and the current eligible counter parties and their limits as set out in Appendix C.
- d. continue to include a mid-year review of Treasury Management activity in the Joint Audit Committee's work plan in accordance with the CIPFA Code of Practice for Treasury Management.

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**TREASURY POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES**

**TREASURY POLICY STATEMENT**

1. The Commissioner defines treasury management activities as:
  - the management of cash flows;
  - banking, money market and capital market transactions;
  - the effective control of the risks associated with those activities;
  - the pursuit of optimum performance consistent with those risks.
  
2. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Commissioner.
  
3. The Commissioner acknowledges that effective treasury management will provide support towards the achievement of business and service objectives. It is therefore a commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.
  
4. Treasury operations are managed within the overall strategy approved by the Commissioner at three levels:
  - Formal reviews of strategy and performance by the Commissioner's CFO, Director of Resources and Head of Finance & Shared Services, in conjunction with representatives from the external advisors (Capita).
  - Monthly monitoring is conducted by the Commissioner's CFO, Director of Resources and Chief Accountant.
  - On a daily basis by trained staff under the direction of the Chief Accountant.

**Note:**

It is important to note that the Treasury Strategy Statement is adopted by the Commissioner based upon advice from external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Commissioner. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and the treasury advisors will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this Report and Statement.

**TREASURY STRATEGY STATEMENT 2016/17****1.0 INTRODUCTION**

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2016/17. The suggested strategy is based upon views of interest rates as advised by external advisors, supplemented with leading market forecasts. The strategy covers:

- the current portfolio position
- prudential indicators
- prospects for interest rates
- the borrowing requirement & strategy
- the investment strategy
- debt rescheduling opportunities
- MRP strategy

**2.0 CURRENT PORTFOLIO POSITION**

2.1 The Commissioner's estimated debt position as at 1st April 2016 is as follows:

	<b>£m</b>
Long-term Debt	
- PWLB fixed rate	47.2
- PWLB variable rate	0.0
	<b>47.2</b>

2.2 The average rate of interest on the above debt is expected to be 4.56%.

2.3 The estimated value of investments at 1st April 2016 is £170m:

- £153m maturing between one day and up to a year.
- £17m maturing between one and four and a half years.

**3.0 PRUDENTIAL INDICATORS for 2016/17 to 2018/19**

3.1 The 2003 Prudential Code for Capital Finance in local authorities introduced requirements for the manner in which capital spending plans are to be considered and approved. It requires the Commissioner to set a number of prudential indicators over a period of three years.

3.2 The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy:



### External debt

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the current Commissioner's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the Commissioner to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.

The operational boundary for external debt is a management tool for day to day monitoring and has been calculated with regard to the Commissioner's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

	2016/17 £m	2017/18 £m	2018/19 £m
Authorised limit for external debt - Borrowing	100.0	100.0	100.0
Operational boundary - Borrowing	90.0	90.0	90.0

The Commissioner's actual external debt as at 31/03/16 is £47.2m, excluding transferred debt managed by Dudley M.B.C.

### CIPFA Code of Practice for Treasury Management in the Public Services

The Commissioner continues to adopt the CIPFA Code of Practice for Treasury Management in the Public Services first adopted by the Police Authority in March 2002.

### Interest rate exposures

These indicators allow the Commissioner to manage the extent to which he is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset the exposure to changes in short-term rates on the portfolio of investments. This limit reduces over time as the strategy is to gradually reduce the level of investments.

	2016/17 %	2017/18 %	2018/19 %
<b>Upper limit for fixed interest rate exposure</b>			
Net principal fixed rate borrowing / investments	100	100	100
<b>Upper limit for variable rate exposure</b>			
Net principal variable rate borrowing / investments	20	20	20

### **Maturity structure of borrowing and Investments longer than 364 days**

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is for the Commissioner to contain his exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

<b>Upper limit of principal invested for periods over 364 days</b>	£60m
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<b>Maturity structure of fixed rate borrowing</b>	<b>Upper limit %</b>	<b>Lower limit %</b>
under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	25

- 3.3 In considering the capital programme for 2016/17, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	<b>31<sup>st</sup> March 2015 £'m</b>	<b>31<sup>st</sup> March 2016 £'m</b>	<b>31<sup>st</sup> March 2017 £'m</b>	<b>31<sup>st</sup> March 2018 £'m</b>	<b>31<sup>st</sup> March 2019 £'m</b>
Capital financing requirement (CFR)	47.6	46.1	44.7	43.3	42.0
External borrowing	-49.2	-47.2	-47.2	-47.2	-47.2
Variance	-1.6	-1.1	-2.5	-3.9	-5.2

The CFR increases when expenditure is incurred and reduces when provision is made to repay debt.

## **4.0 PROSPECTS FOR INTEREST RATES**

4.1 The Commissioner continues to use Capita Asset Services as a treasury advisor and has made use of their services in formulating a view on interest rates. Capita has in turn drawn upon the work of a number of City economic forecasters. Having discussed these, the following view of the prospects for interest rates over the next twelve months has been derived:

- **Short-term rates.**

The Bank of England Base Rate has been 0.5% for the whole of 2015/16 and it is expected to remain there until March 2017 with a rise to 0.75% and reaching 1.00% by September 2017. The continuing low rate is a consequence of turbulence in the global economy. The uncertainty around the outcome of the “Brexit” referendum is an added factor affecting interest rates. If economic growth continues to be slow, as currently forecast, Base Rate may rise more slowly, or remain low for longer. For 2016/17 an investment return of 0.60% can be expected because a proportion of the funds are already invested at rates above 1.0% but it is expected that the majority of maturities during 2016/17 could be at rates of 0.5% or less.

- **Long-term rates.**

The 50 year PWLB rate is expected to be around 3.20% in 2016/17 before rising to 3.40% by the end of 2017. Similarly, the 25 year PWLB rate is estimated at 3.20% for 2016/17 and then gradually rising to 3.40% by the end of 2017. Again the result of the “Brexit” referendum, and the perception thereof, will have an impact on these interest projections.

4.2 The overall strategy will be based on the projections above. However, the Commissioner will maintain flexibility to take account of unexpected variations from the forecast.

## **5.0 ANNUAL INVESTMENT STRATEGY**

5.1 The Commissioner’s investment activities have regard to guidance issued by the Government and CIPFA from time to time.

5.2 In making investment decisions, the priorities will be security of the Commissioner’s funds and liquidity. Pursuit of the best possible return on investments will only be allowed to the extent that this is consistent with very low levels of risk in terms of security and liquidity.

5.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Commissioner will not engage in such activity.

5.4 The Commissioner will make use of both specified investments and non-specified investments. Specified investments are those that satisfy the following conditions:

- a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- b) The Commissioner requires that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
- c) The investment does not involve the acquisition of share capital or loan capital in any corporate body.
- d) The investment satisfies any of the following conditions:

The investment is made with the UK government (Debt Management Agency Deposit Facility), a local authority, a parish council or a community council.

The investment is made with a body which has been awarded a “high credit rating” by a credit rating agency.

If the body is not a UK bank, the sovereign country must be awarded a “high credit rating” by a credit rating agency.

- 5.5 For the purposes of this strategy use is made of the creditworthiness service provided by Capita Asset Services to define a “high credit rating” as follows (credit ratings taken from Fitch IBCA):

UK banks and building societies – short-term rating F1 or higher and viability rating of “a-” or higher.

Foreign banks – short-term rating F1+, and a viability rating of a minimum of “a” with a sovereign rating of AAA.

These will be supported by other accredited rating systems (Standard & Poor’s and Moody’s), credit watches and outlooks, Credit Default Swap data, and information from the financial press.

- 5.6 Since the credit crisis, there are several semi-nationalised banks in the UK with credit ratings which do not conform to the credit criteria usually used to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for the rating agencies to assign them an individual rating for their stand alone financial strength. However, these institutions are now recipients of an F2 short term rating as they effectively take on the creditworthiness of the Government itself. That is deposits made with them are effectively being made to the Government.

- 5.7 The Commissioner’s CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at Capita Asset Services. Institutions that cease to meet the criteria above will immediately cease to be treated as specified investments.

- 5.8 Non-specified investments are those that do not meet the criteria in 5.4 to 5.6 above. In determining which categories of non-specified investments may prudently be used, account will be taken of advice from the advisors, Capita, and, if investments are for 12 months or more, long-term credit ratings as determined by Fitch IBCA.

- 5.8 So far, the following categories of investment have been identified as prudent for use. The table also shows a maximum proportion of the pool of investments that may be held in any one category:

<b>Category of investment</b>	<b>Maximum for this category of investments as a proportion of total investments (at the time of making a new investment)</b>
Sterling deposits in excess of 364 days with	30%

Local Authorities and UK banks (where these are not “specified investments” as defined above).	
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- 5.10 In determining the maximum period for which investments may be held, regard to the most recent cash flow forecast (Schedule 15 to the Treasury Management Practices) will be taken. No investment will be entered into where the cash-flow forecast indicates that, as a result of that investment, the Commissioner would be forced to borrow money in a future year that would not otherwise have had to be borrowed.
- 5.11 Also at the time of making a new investment, long-term investments (investments of one year’s duration or more) should not constitute more than 30% of the total pool of investments.
- 5.12 Investments with a single institution should not exceed 25% (15% for Building Societies) of the total pool of investments at month end. Investments with a group of banks should not exceed 30% of the total pool of investments at month end.

## **6.0 CAPITAL BORROWING REQUIREMENT & STRATEGY**

- 6.1 The Commissioner’s CFO has undertaken a review of capital investment requirements and likely resource levels. Although there is some uncertainty around specific requirements and future funding levels, it is unlikely that there will be a need to borrow to fund the Capital Programme in the next few years.
- 6.2 If however there is a need to borrow, forecasts suggest that there are potential options available. Variable rate borrowing may be attractive throughout 2016/17 as it is expected to be cheaper than long term fixed borrowing. Under 10 year PWLB rates are forecast to be lower than longer term borrowing which could enable the spread of debt maturities as the focus in recent years has been to concentrate on long dated debt.
- 6.3 Little difference between 25 and 50 year borrowing is forecast, however, borrowing in the 25 to 30 year period could be more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This strategy would also allow for debt rescheduling in the future; again improving the spread in the debt maturity profile.
- 6.4 Should PWLB rates fall below the forecast rates, borrowing could be undertaken at any time to take advantage of low rates.
- 6.5 However, the next financial year is expected to see a continuation of the relatively low Bank Rate which may present an opportunity to review the Commissioner’s external borrowing strategy. As investments exceed the borrowing requirement over the next year, and cash can be accessed from maturing investments, consideration needs to be given to the potential of internal borrowing.
- 6.6 As long term borrowing rates are expected to be higher than rates on the loss of investment income, and look likely to be so for the next couple of years, it may be preferable to avoid some new external borrowing to maximise savings in the short term. A reduction of investments also has the benefit of reducing exposure to interest rate and credit risk.

- 6.7 Against this continuing background caution will be adopted with the 2016/17 treasury management operations. The Commissioner's CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

## **7.0 TEMPORARY INVESTMENTS STRATEGY**

- 7.1 Capita has forecast Bank Base Rate to be 0.50% for much of 2016/17 which suggests that an investment return of 0.60% can be achievable assuming that the Bank rate does not decrease.
- 7.2 Capita also predict that Bank Base Rate may begin to rise at the end of 2016 back to about 1.75% by March 2019 which suggests locking into long term investments while rates are so historically low should be resisted. If investment opportunities arise at greater rates than the anticipated Base Rate then they should be considered.

## **8.0 DEBT RESCHEDULING AND PREMATURE REPAYMENT OPPORTUNITIES**

- 8.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive.
- 8.2 Due to short term borrowing rates expected to be considerably cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of their short term nature and the cost of refinancing short term loans as they mature. Any rescheduling and repayment of debt is likely to cause a rebalancing of the Commissioner's debt maturities towards a flatter maturity profile because in the past there has been a concentration on longer dated PWLB loans.
- 8.3 The potential for making savings by reducing investment balances by repaying debt prematurely should also be considered as short term rates on investments will be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be due on early debt repayment.

## **9.0 MINIMUM REVENUE PROVISION STRATEGY**

- 9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, and machinery. As it would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred, such expenditure is spread over several years to try to match the useful life of the asset. This is done by an annual Minimum Revenue Provision, which was previously determined under regulation but now is determined under guidance.
- 9.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 which came into force on 31 March 2008 states that an annual MRP statement needs to be produced which details the methodology for the charge to revenue for debt redemption. The Regulations require that the Commissioner "shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".
- 9.3 Methods of making prudent provision for MRP include four options. Options 1 and 2 should only be used in relation to Capital expenditure incurred before 1 April 2008 and Capital expenditure incurred on or after that date which the Commissioner is satisfied forms part of Supported Capital Expenditure. For all unsupported borrowing

covered by the Prudential Code on or after 1 April 2008, Options 3 or 4 must be used.

9.4 The MRP options are:

- **Option 1 – Regulatory Method.** MRP is equal to the amount determined in accordance with the former sections 28 and 29 of the 2003 Regulations as if they had not been revoked.
- **Option 2 – Capital Financing Requirement Method.** MRP is equal to 4% of the Capital Financing Requirement at the end of the previous year.
- **Option 3 – Asset Life Method.** Revenue provision is spread over the determined useful life of the Asset either in equal instalments or using an annuity method. The first charge can be delayed until the asset is operational.
- **Option 4 – Depreciation Method.** MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset.

9.5 It is recommended that for 2016/17, Option 2 will continue to be used for Capital expenditure incurred before 1 April 2008. For all subsequent Capital expenditure financed by Borrowing, the equal instalment method of Option 3 will be used. In the future it will be necessary to choose which assets are financed by borrowing carefully since the useful lives of the assets could increase or decrease MRP charges.

**APPENDIX C**

**EXTERNAL INVESTMENTS - APPROVED COUNTERPARTY LIST 2016/17**

<b>BRITISH BANKS &amp; SUBSIDIARIES</b>	<b>IBCA RATING</b>				<b>LIMIT £000</b>	<b>GROUP LIMIT</b>	<b>PERIOD</b>
	<b>L/T</b>	<b>S/T</b>	<b>Viab</b>	<b>Sup</b>			
<b>Lloyds Banking Group</b>						30,000	6mth
Lloyds Bank	A+	F1	a	5	30,000		6mth
Bank of Scotland	A+	F1	a	5	30,000		6mth
<b>RBS Group</b>						60,000	1 year +
National Westminster	BBB	F2	bbb+	5	60,000		1 year +
Royal Bank of Scotland	BBB	F2	bbb+	5	60,000		1 year +
Close Brothers Ltd	A	F1	a	5	30,000		6mth
HSBC	AA-	F1+	a+	1	30,000		6mth
Bank of England (DMADF)					100,000		1 year +
Santander UK plc	A	F1	a	2	30,000		6mth
Barclays	A	F1	a	5	30,000		3mth

<b>BUILDING SOCIETIES</b>	<b>IBCA RATING</b>				<b>LIMIT £000</b>	<b>PERIOD</b>
	<b>L/T</b>	<b>S/T</b>	<b>Viab</b>	<b>Sup</b>		
Nationwide	A	F1	a	5	30,000	6mth
Leeds	A-	F1	a-	5	30,000	6mth
Yorkshire	A-	F1	a-	5	30,000	3mth
Coventry	A	F1	a	5	30,000	6mth

<b>FOREIGN COUNTRIES</b>	<b>NATIONAL RATING</b>	<b>LIMIT £000</b>	<b>PERIOD</b>
Canada	AAA	20,000	3mth
Denmark	AAA	20,000	3mth
Germany	AAA	20,000	3mth
Netherlands	AAA	20,000	3mth
Singapore	AAA	20,000	3mth
Sweden	AAA	20,000	3mth
Switzerland	AAA	20,000	3mth
USA	AAA	20,000	3mth

<b>LOCAL AUTHORITIES</b>	<b>LIMIT for each LA £000</b>	<b>PERIOD</b>
All Local Authorities	30,000	1 year+