

**WEST MIDLANDS POLICE
AND CRIME
COMMISSIONER**

NON-CONFIDENTIAL

NOTICE OF DECISION

013/2013

Contact Officer: Caroline Jones, T/Head Finance & Procurement

Telephone Number: 0121 626 5455 or 7800 2455

Email: caroline.jones@west-midlands.pnn.police.uk

Treasury Management Strategy 2013/14

EXECUTIVE SUMMARY

This report sets out the Police and Crime Commissioner's Treasury Strategy Statement 2013/14 and updates on debt management activity and investment activity during the financial year 2012/13.

DECISION

- (a) The PCC approves the treasury management activity in 2012/13 set out in paragraphs 6 to 18, and the interest rate observations in paragraph 20.
- (b) The PCC formally adopts the CIPFA Code of Practice for Treasury Management.
- (c) The PCC approves the Treasury Strategy Statement for 2013/14 set out in Appendix B.
- (d) The PCC approves the criteria for selecting counter parties and the current eligible counter parties and their limits as set out in Appendix C.
- (e) The PCC will undertake a mid-year review of Treasury Management activity in accordance with the CIPFA Code of Practice for Treasury Management.

West Midlands Police and Crime Commissioner

I confirm that I do not have any disclosable pecuniary interests in this decision and take the decision in compliance with the Code of Conduct for the West Midlands Office for Policing and Crime. Any interests are indicated below.

Signature.....Bob Jones.....

Date.....20 March 2013.....

NON - CONFIDENTIAL FACTS AND ADVICE TO THE POLICE AND CRIME COMMISSIONER

INTRODUCTION AND BACKGROUND

1. The PCC 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. **In order to protect the PCC'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.**
3. The PCC is responsible for administering a Capital Programme of £114.8m between 2013/14 and 2016/17. As far as possible all surplus revenue money and other reserves are invested on a daily basis until they are required.
4. The PCC 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 PCC must formally adopt the Code.
 - The strategy report will affirm that the effective management and control of risk are prime objectives.
 - The PCC'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 PCC 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 PCC 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 PCC, 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 PCC.

5. The PCC'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 PCC is prepared to deposit funds. The TMPs and Schedules are reviewed regularly by the PCC'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 2013/14. A copy is attached at Appendix B.

DEBT MANAGEMENT ACTIVITY 2012/13

6. Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board to finance major capital expenditure. All long-term borrowing has transferred to the PCC.
7. Borrowing at the 31st March 2013 will total £49.2m all at fixed rates and repayable over various periods up to 2061.
8. The PCC 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.
9. There have been no maturities during 2012/13. Sector, the PCC's treasury advisors, continue to advise on debt restructuring to enable the PCC to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets.
10. The table below shows that the level of borrowing has remained constant during 2012/13 and the average interest rate is still 4.84%.

PWLB Borrowing

Loan Type	Borrowing £'m		Average Interest Rates %	
	2011/12	2012/13	2011/12	2012/13
Fixed	49.2	49.2	4.84	4.84
Variable	0.0	0.0	0.0	0.0
Total	49.2	49.2	4.84	4.84

INVESTMENT ACTIVITY 2012/13

11. As far as possible, all 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).
12. Interest earned on investments up to the end of March is predicted to average 1.15%, approximately 44 basis points above the average return on 3 month LIBOR (0.71%) as at 31/01/13. This represents good performance given the continued depressed state of the money markets and the continued low Base Rate.
13. In the 2012/13 report the outgoing Police Authority 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, changes to the Code, and the significant amounts invested (at the 28th February 2013, the PCC had £176.5m invested with a range of maturity dates between one day and two and a half years).
14. All of the PCC's current investments are with UK based entities: 53% Local Authorities, 40% British Banks, 7% Building Societies.
15. Also since October 2008 the Police Authority had £5.4m of investments frozen in the Icelandic bank Landsbanki. The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The rights to this investment have transferred to the PCC and to date approximately a third of the original investments have been recovered.
16. Based on market information provided by Sector, 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 limits (£50m increasing to £60m) for the part government owned institutions (Lloyds TSB Bank, Bank of Scotland, National Westminster Bank, Royal Bank of Scotland) have been changed as it is considered that they are less risky than other UK institutions that are not directly supported by the government.
17. 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 PCC'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.
18. 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 PCC's CFO. This will continue for the next financial year.

TREASURY STRATEGY STATEMENT 2013/14

19. The Treasury Strategy Statement covers the PCC'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 2013/14 is attached at Appendix B.
20. The expectations for interest rates over the next twelve months, which will be subject to continuous review with the PCC'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 2013/14 but then rise from March 2015 to reach 1.50% by December 2015.
- Growth in the UK economy is expected to be weak in the next two years and as Base Rate underpins investment returns it is unlikely that this forecast is an under estimate especially if the economic recovery is slower or weaker than currently anticipated.
- The low interest rates will continue to depress future interest receivable estimates and an average investment return as low as 0.50% on new investments made in 2013/14 can be expected.

Long-term rates.

- Very long term rates (50 year PWLB rate) are expected to be around 4.20% for most of 2013/14.
 - Long term rates (25 year PWLB rate) are also expected to be around 4.10% during 2013/14.
 - The view of long term rates will affect the borrowing strategy in 2013/14. 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.
21. The Local Government Act 2003 introduced a new system of "prudential borrowing" which allows the PCC 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 2013/14 Budget and Precept were agreed in February 2013. 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.

22. The Local Government Act 2003 also requires the PCC 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 PCC's policies for managing investments and for giving priority to the security and liquidity of those investments.

FINANCIAL IMPLICATIONS

23. The financial implications of the Treasury Management function are included in the PCC's annual budget. The estimated total net cost of capital financing in 2013/14 (including direct charges to revenue) is £5.6m.

LEGAL IMPLICATIONS

24. 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 PCC to do anything which is calculated to facilitate or is conducive or incidental to the discharge of their various statutory functions.
25. Adoption of the CIPFA Code of Practice on *Treasury Management in the Public Services* as part of the PCC'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.
26. The PCC'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.

EQUALITY IMPLICATIONS

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

Schedule of Background Papers

Appendix 1 – Treasury Policy Statement and Treasury Management Practices

Appendix 2 – Treasury Strategy Statement 2013/14

Appendix 3 – External Investments – Approved Counterparty List 2013/14

Public Access to Information

Information contained in this decision is subject to the Freedom of Information Act 2000 and other legislation. This decision will be made available on the Commissioner's website.

TREASURY POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

TREASURY POLICY STATEMENT

1. The PCC 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 PCC 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 PCC.
3. The PCC 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 PCC at three levels:
 - Formal reviews of strategy and performance by the PCC's CFO, Director of Resources and Head of Finance & Procurement, in conjunction with representatives from the external advisors (Sector).
 - Monthly monitoring is conducted by the PCC's CFO, Director of Resources and Head of Finance & Procurement.
 - On a daily basis by trained staff under the direction of the Head of Finance & Procurement.

Note:

It is important to note that the Treasury Strategy Statement is adopted by the PCC based upon advice from external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the PCC. 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 PCC 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 2013/14**1.0 INTRODUCTION**

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2013/2014. 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 PCC's estimated debt position as at 1st April 2013 is as follows:

	£m
Long-term Debt	
- PWLB fixed rate	49.2
- PWLB variable rate	0.0
	49.2

2.2 The average rate of interest on the above debt is expected to be 4.84%.

2.3 The estimated value of investments at 1st April 2013 is £180m:

- £140m maturing between one day and up to a year.
- £40m maturing between one and two and a half years.

3.0 PRUDENTIAL INDICATORS for 2013/14 to 2015/16

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 PCC 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. It has been calculated to take account of the PCC's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the PCC'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.

	2013/14	2014/15	2015/16
	£m	£m	£m
Authorised limit for external debt - Borrowing	100.0	100.0	100.0
Operational boundary - Borrowing	90.0	90.0	90.0

The PCC's actual external debt as at 31/03/13 is £49.2m, excluding transferred debt managed by Dudley M.B.C.

CIPFA Code of Practice for Treasury Management in the Public Services

The PCC 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 PCC to manage the extent to which they are 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.

	2013/14 %	2014/15 %	2015/16 %
Upper limit for fixed interest rate exposure			
Net principal fixed rate borrowing / investments	100	100	100
Upper limit for variable rate exposure			
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 PCC to contain their 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.

Upper limit of principal invested for periods over 364 days	£60m
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Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %
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 2013/14, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	31st March 2012 £'m	31st March 2013 £'m	31st March 2014 £'m	31st March 2015 £'m	31st March 2016 £'m
Capital financing requirement (CFR)	43.5	41.4	44.0	52.4	50.9
External borrowing	-49.2	-49.2	-49.2	-49.2	-47.2
Variance	-5.7	-7.8	-5.2	3.2	3.7

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 PCC continues to use Sector Treasury Services as a treasury advisor and has made use of their services in formulating a view on interest rates. Sector 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 2012/13 and it is expected to remain there until March 2015 with a rise to 1.50% by December 2015. The continuing low rate is a consequence of the global recession. If the recovery from the recession takes longer, or is slower, than is currently forecast Base Rate may rise more slowly, or remain low for longer. For 2013/14 an investment return of 0.75% 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 2013/14 will be at rates of less than 0.5%.

- **Long-term rates.**

The 50 year PWLB rate is expected to be around 4.20% in 2013/14 before rising to 5.00% by the end of 2015. Similarly, the 25 year PWLB rate is estimated at 4.10% for 2013/14 and then gradually rising to 4.90% by the end of 2015.

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

5.0 ANNUAL INVESTMENT STRATEGY

5.1 The PCC's investment activities have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes ("the CIPFA TM Code").

5.2 In making investment decisions, the priorities will be security of the PCC'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 PCC will not engage in such activity.

5.4 The PCC will make use of specified investments. These are investments 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 PCC 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 body corporate.
- 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 Sector Treasury 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 or a support rating of 3 or higher.

Foreign banks – short-term rating F1+, support rating of 1 or 2, and a viability rating of a minimum of "a" with a sovereign rating of AAA.

These will be supported by other accredited rating systems (S&P and Moody's), credit watches and outlooks, Credit Default Swap spreads, and data 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 F1 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; they have the highest ratings possible.
- 5.7 The PCC's CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at Sector Treasury 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 treasury management consultants at Sector Treasury Services and, if investments are for 12 months or more, long-term credit ratings as determined by Fitch IBCA.

- 5.9 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:

Category of investment	Maximum for this category of investments as a proportion of total investments (at the time of making a new investment)
Sterling deposits in excess of 364 days with Local Authorities and UK banks (where these are not “specified investments” as defined above).	30%

- 5.10 In determining the maximum period for which investments may be held, regard to the most recent cash flow forecast (Schedule 15 to our 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 PCC 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 PCC’s CFO has undertaken a review of capital investment requirements and likely resource levels; there is currently uncertainty around specific requirements and future funding levels. Based on these principles, there may be a requirement to borrow to fund the capital programme currently estimated to be £114.8m over the period 2013/14 to 2016/17.
- 6.2 Forecasts suggest that there is a range of potential options for borrowing. Variable rate borrowing may be attractive throughout 2013/14 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 these low rates.
- 6.5 However, the next financial year is expected to be a time of relatively low Bank Rate which may present an opportunity to review the PCC'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 background caution will be adopted with the 2013/14 treasury management operations. The PCC's CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

7.0 TEMPORARY INVESTMENTS STRATEGY

- 7.1 Sector has forecast Bank Base Rate to be 0.50% for 2013/14 which suggests that an investment return of 0.75% can be achievable assuming that the Bank rate does not decrease.
- 7.2 Sector also predict that Bank Base Rate may begin to rise from 2015 back to about 1.75% by the end of 2015/16 which suggests locking into long term investments while rates are so historically low should be resisted.

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 PCC's debt maturities towards a flatter maturity profile because in recent years 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 PCC “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 PCC is satisfied forms part of Supported Capital Expenditure. For all unsupported borrowing exercised under 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 2013/14, 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 2013/14

BRITISH BANKS & SUBSIDIARIES	IBCA RATING				LIMIT	GROUP	PERIOD
	L/T	S/T	Viab	Sup	£000	LIMIT	
Lloyds Banking Group						60,000	1 year +
Lloyds TSB Bank	A	F1	bbb	1	30,000		1 year +
Bank of Scotland	A	F1		1	30,000		1 year +
RBS Group						60,000	1 year +
National Westminster	A	F1		1	30,000		1 year +
Royal Bank of Scotland	A	F1	bbb	1	30,000		1 year +
Ulster Bank Ltd	A-	F1	ccc	1	30,000		1 year +
HSBC	AA-	F1+	a+	1	10,000		1 year
MBNA	A	F1		1	10,000		6mth
Bank of England (DMADF)					100,000		1 year +
Santander UK plc	A	F1	a+	1	10,000		1mth
Barclays	A	F1	a+	1	25,000		3mth
Standard Chartered Bank	AA-	F1+	aa-	1	10,000		1 year
Clydesdale (Yorkshire) Bank	A	F1	bbb	1	5,000		1mth

BUILDING SOCIETIES	IBCA RATING				LIMIT	PERIOD
	L/T	S/T	Viab	Sup	£000	
Nationwide	A+	F1	a+	1	25,000	6mth
Coventry	A	F1	a	5	10,000	1mth

LOCAL AUTHORITIES	IBCA RATING				LIMIT	PERIOD
	L/T	S/T	Viab	Sup	£000	
All Local Authorities					30,000	1 year +

FOREIGN COUNTRIES	NATIONAL RATING	LIMIT	
		£000	PERIOD
Australia	AAA	20,000	3mth
Canada	AAA	20,000	3mth
Denmark	AAA	20,000	3mth
Finland	AAA	20,000	3mth
France	AAA	20,000	3mth
Germany	AAA	20,000	3mth
Luxembourg	AAA	20,000	3mth
Netherlands	AAA	20,000	3mth
Norway	AAA	20,000	3mth
Singapore	AAA	20,000	3mth
Sweden	AAA	20,000	3mth
Switzerland	AAA	20,000	3mth
USA	AAA	20,000	3mth