Cambridgeshire
Police & Crime
Commissioner

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2013/14

March 2013

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1 INTRODUCTION

1.1 Background

The Financial Management Code of Practice (FMCP) sets out the Commissioner's responsibility for loans, investments and borrowing. The Commissioner holds the Police Fund and the Chief Constable is not allowed to borrow money. The FMCP is issued by the Home Office and makes it clear that the Prudential Code for Capital Finance in local authorities and the Treasury Management in Public Services Code of Practice and cross sectoral guidance notes, both issued by CIPFA, continue to apply to the police service. The Commissioner needs to have regard to the Prudential Code in terms of affordability of financial plans when developing the Medium Term Financial Strategy (MTFS) which is aligned to the Police and Crime Plan.

The Commissioner is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

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

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time and is similar to a depreciation charge against long term assets);
- 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 will update the Commissioner with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are likely to be scrutinised by the Audit Committee.

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Commissioner;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department for Communities and Local Government (CLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny.

The Commissioner/Deputy Commissioner and members of the substantive Joint Audit Committee will be provided with appropriate training.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Office of the Police and Crime Commissioner (OPCC) uses Sector as its external treasury management advisor.

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

The Commissioner also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2013/14 – 2015/16

The Commissioner's capital expenditure plans are the key driver of treasury management activity and are reflected in the prudential indicators.

2.1 Capital expenditure

The **first prudential indicator** is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Commissioner's Capital Programme (including financing) has already been approved.

From 2013/14 onwards, the Commissioner has determined that there will be no borrowing to support capital spending unless it is required for major structural reform.

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Expenditure	3,934	7,803	3,981	2,300	2,850
Financed by:					
Capital Receipts	188	-	-	-	-
Capital grants	1,115	1,665	1,169	1,169	1,169
Capital reserves	1,273	851	1,641	-	303
Revenue	293	5,287	1,171	1,131	1,378
Net financing need for the year	**1,065**	**-**	**-**	**-**	**-**

2.2 The Commissioner's borrowing need (the Capital Financing Requirement)

The **second prudential indicator** is the Commissioner's 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 CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and is similar to a depreciation charge, whereby the cost of the asset is charged as it is consumed.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes. The Commissioner currently has £30k of such schemes within the CFR.

The Commissioner is asked to approve the CFR projections below:

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement					
Total CFR	34,130	33,092	32,090	31,122	30,187
Movement in CFR	10	-1,038	-1,002	-968	-935
Movement in CFR represented by					
Net financing need for the year (above)	1,065	-	-	-	-
Less MRP/VRP and other financing movements	-1,055	-1,038	-1,002	-968	-935
Movement in CFR	10	-1,038	-1,002	-968	-935

The CFR is reducing in the future in line with the Commissioner's objective of not borrowing in respect of capital expenditure unless it is for major structural reform. As capital expenditure is planned to be paid for from resources in the current planning cycle, the MRP (or depreciation charge), reduces the overall need to borrow.

2.3 Minimum revenue provision (MRP) policy statement

The Commissioner is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Department for Communities and Local Government (CLG) regulations have been issued which require the Commissioner to approve **an MRP Statement** in advance of each year. A variety of options are provided so long as there is a prudent provision.

The Commissioner is recommended to approve the following MRP Statement:

a) For capital expenditure incurred prior to 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:-

Existing practice - MRP will follow the existing practice outlined in former CLG regulations (option 1 – this option provides for an approximate 4% reduction in the borrowing need (CFR) each year).

b) From 1 April 2008 for all unsupported borrowing (including assets acquired under finance leases) the MRP policy will be:-

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions 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 £'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fund Balances	6,681	7,180	7,025	7,025	7,025
Earmarked Reserves	19,142	10,890	9,249	9,249	9,249
Capital Receipts	66	538	538	694	546
Provisions	740	740	740	740	740
Total Core Fund	26,629	19,348	17,552	17,708	17,560
Under-borrowing	-17,356	-21,693	-21,084	-20,527	-20,021
Working Capital	-1,360	0	0	0	0
Short Term Investments	7,913	0	0	0	0
Short Term Borrowing	0	-2,346	-3,533	-2,819	-2,461

The short term borrowing need identified above suggests that longer borrowing options should be considered.

The under-borrowing position arises from the use of cash supporting the reserves, rather than external borrowing. This is a prudent measure in the current economic climate as borrowing costs are higher than investment rates and it also reduces counterparty risk. Borrowing may be needed if reserves and balances are used or the economic situation changes.

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioner's overall finances. The Commissioner is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the 2013/14 budget.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Ratio	1.3%	1.8%	1.2%	1.1%	1.0%

2.7 Incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Commissioner's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

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

£	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council Tax - Band D	1.79	1.33	-2.82	-0.19	-0.18

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Commissioner. The treasury management function ensures that the Commissioner's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Commissioner's treasury portfolio position at 31 March 2012, with forward projections is summarised below. The table 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.

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External Long Term Debt					
Debt at 1 April	21,761	16,774	11,399	11,006	10,595
Expected change in Debt	-4,987	-5,375	-393	-441	-429
Actual gross debt at 31 March	16,774	11,399	11,006	10,595	10,166
The Capital Financing Requirement	34,130	33,092	32,090	31,122	30,187
Under/(over) borrowing	17,356	21,693	21,084	20,527	20,021

Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates within well defined limits. One of these is that the Commissioner needs to ensure that 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 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that 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 this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary for external debt. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary £000	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	16,774	13,049	12,656	12,245
Other long term liabilities	-	-	-	-
Total	16,774	13,049	12,656	12,245

This Table assumes that debt will increase by £1.65m, the cost of 'legacy' capital expenditure (i.e. capital schemes committed prior to 1 April 2013).

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This 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 Commissioners' plans, or those of a specific Commissioner, although this power has not yet been exercised.
2. The Commissioner is asked to approve the following authorised limit:

Authorised limit £000	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	21,774	18,049	18,656	17,245
Other long term liabilities	-	-	-	-
Total	21,774	18,049	18,656	17,245

The assumption in the Table is Operational Boundary plus £5m.

Note: The limits above are those calculated to comply with the statutory requirement to set them. All long term borrowing will require the approval of the Commissioner.

3.3 Prospects for interest rates

Part of the service provided by Sector is to assist the Commissioner to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

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 cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. Interest rates in financial markets will be monitored and a pragmatic approach to changing circumstances adopted.

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any actions necessary will be dicussed with the Commissioner or Deputy Commissioner. If for any reason neither of them are available a decision will be taken by the CFO (OPCC) and reported as soon as possible.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Commissioner's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits;

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

£'000	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	16,774	13,049	12,656
Limits on variable interest rates based on net debt	4,000	3,000	3,000
Maturity Structure of fixed interest rate borrowing 2013/14			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%

3.5 Policy on borrowing in advance of need

As the Commissioner is not planning to borrow to finance the Capital Pragramme over the next 4 years there is no requirement to borrow in advance of need.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All options for rescheduling will be discussed with the Commissioner or Deputy Commissioner prior to any decision being taken.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

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

In accordance with the above guidance from CLG and CIPFA, and in order to minimise the risk to investments, the Commissioner clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflect in the eyes of each agengy. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, 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. To this end the Commissioner will engage with advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

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

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories.

4.2 Creditworthiness policy

The main principle governing the Commissioner's investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the Commissioner will ensure

- the maintenance of a policy covering the categories of investment to be used, criteria for choosing investment counterparties with adequate security, and monitoring of their security. This is set out in the specified investment sections below; and
- that there is sufficient liquidity in the investments. For this purpose the Commissioner has 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.

NB. Non-specified investments are unlikely to be used. Non-specified investments are those which do not fall into the definition of specified investments in the Treasury Management Policy.

The CFO (Constabulary) 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 for specified and non-specified investments as they provide an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Commissioner's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Commissioner's criteria, and the other does not, the institution will fall outside the lending criteria.

Credit rating information is supplied by Sector on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties are:

- Banks 1 - good credit quality **–** the Commissioner will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

  and have the highest short-term rating of each of the three main credit rating agencies i.e. Fitch F1+, Moody's P-1 and Standard and Poor's A-1+. **Please note** that only short-term ratings are relevant as the Commissioner only has call accounts with its bank based counterparties.
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet 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.
- Money market funds – rated AAA
- UK Government (including gilts, the DMADF and local authorities)

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioner's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 10% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of information other than credit ratings. Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Commissioner's counterparty list are as follows:

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Limit 1 Category Banks	F1+	25% of available funds up to £5m per institution	364 days
Limit 2 Category Banks – part nationalised	F1+	25% of available funds up to £5m per institution	364 days
Limit 3 Category Commissioner's banker (not meeting Banks Limit 1) (non-specified investment)	F1	£5m	overnight
Limit 4 Category DMADF	AAA	100% available funds	6 months
Limit 5 Category Local Authorities	N/A	£5m	364 days
Limit 6 Category Money Market Funds	AAA	100% of available funds. If over £5m, spread over 2 funds.	These are available at short notice

4.3 Country limits

Only approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent) will be used. The list will be amended by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.75%
- 2015/16 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. 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.

The Commissioner is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2013/14**	**2014/15**	**2015/16**
Principal sums invested > 364 days	£0m	£0m	£0m

For its cash flow generated balances, the Commissioner will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.5 End of year investment report

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

5 APPENDICES

1. Treasury management practice 1 – credit and counter party risk management

5.1 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Commissioner's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Commissioners to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Commissioner to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The former Police Authority adopted the Code in February 2006 and the Commissioner will continue to apply its principles to all investment activity. In accordance with the Code, the CFO (Constabulary) 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.
- Specified investments that the Commissioner will use. These are high security (i.e. high credit rating, although this is defined by the Commissioner, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

The investment policy proposed for the Commissioner is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement Section 4.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Commissioner has the right to be repaid within 12 months if required. 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. Supranational bonds of less than one year's duration.
3. A local authority.
4. Pooled investment vehicles (such as money market funds) that have been rated AAA by Standard and Poor's, Moody's or Fitch rating agencies*.*

5. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria for the time and amount of monies which will be invested in these bodies. The criteria are set out below

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Limit 1 Category Banks	F1+	25% of available funds up to £5m per institution	364 days
Limit 2 Category Banks – part nationalised	F1+	25% of available funds up to £5m per institution	364 days
Limit 3 Category Commissioner's banker (not meeting Banks Limit 1) (non-specified investment)	F1	£5m	overnight
Limit 4 Category DMADF	AAA	100% available funds	6 months
Limit 5 Category Local Authorities	N/A	£5m	364 days
Limit 6 Category Money Market Funds	AAA	100% of available funds. If over £5m, spread over 2 funds.	These are available at short notice

There is clear operational difficulty arising from the recent banking crisis. Investment returns are historically low and it could be many years before they return to 'normal' levels. In addition, there is still significant turmoil and uncertainty in the financial markets which means that further bank defaults cannot be ruled out. This makes the selection of appropriate counterparties even more important.

The CFO (Constabulary), in discussion with the CFO (OPCC), will therefore be able to suspend counterparties if risk is identified (e.g. a negative rating watch).

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information (changes, rating watches and rating outlooks) from Sector 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. Any counterparty failing to meet the criteria will be removed from the list immediately by the CFO (Constabulary), and if required new counterparties which meet the criteria will be added to the list.