WEST MIDLANDS POLICE AND CRIME COMMISSIONER

NON-CONFIDENTIAL NOTICE OF DECISION

[020/2020]

Contact Officer:	Mark Kenyon, Chief Finance Officer
Telephone Number:	0121 626 6060 or 801 6048
Email:	m.kenyon@west-midlands.pnn.police.uk

Treasury Management Strategy 2020/21

EXECUTIVE SUMMARY

This report sets out the Police and Crime Commissioner's Treasury Strategy Statement 2020/21 and updates on debt management activity and investment activity during the financial year 2019/20 as reported to the Joint Audit Committee on 26 March 2020.

DECISION

(a) The Commissioner formally adopts the CIPFA Code of Practice for Treasury Management.

(b) The Commissioner approves the Treasury Strategy Statement for 2020/21 set out in Appendix B.

(c) The Commissioner approves the criteria for selecting counter parties and the current eligible counter parties and their limits as set out in Appendix C.

(d) The Commissioner will undertake a mid-year review of Treasury Management activity in accordance with the CIPFA Code of Practice for Treasury Management. This will be reported to the Joint Audit Committee.

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 Police and Crime Commissioner for the West Midlands. Any interests are indicated below.

Signature………………………………………………………………

Date 08.04.2020

1. PURPOSE OF REPORT

1.1 This report sets out the Police and Crime Commissioner's Treasury Strategy Statement for 2020/21 and updates on debt management activity and investment activity during the financial year 2019/20.

1.2 Also 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.

1.4 The Treasury Management Strategy will be reviewed on a regular basis during the COVID-19 crisis to ensure the assets of the PCC are protected as much as possible and are not subject to unmitigated risks.

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 £219.5m between 2019/20 and 2023/24. 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 financial news media, 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 electronic copies are available on request.

3 **Annual Treasury Strategy Statement** details the expected activities of the treasury function in the financial year 2020/21. A copy is attached at Appendix B.

3. DEBT MANAGEMENT ACTIVITY 2019/20

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 March 2020 is expected to total £96.6m all at fixed rates and repayable over various periods up to 2069.

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 One loan for £550k matured during 2019/20 and an additional £15m was borrowed to support the Estates Strategy Projects within the Capital Programme. PWLB rates dropped to their lowest point in September/October 2019 before being increased by the Treasury on 9 October 2019. Prior to this rates rise the £15m additional borrowing was secured for 50 years.

3.5 There was therefore a change to the average rate of interest on debt from 3.66% to 3.32%. Link Asset Services, 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 2019/20.

3.6 The table below shows the level of borrowing during 2019/20 and the average interest rate and the change since 2018/19.

PWLB Borrowing

Loan Type	**Borrowing £'m**		**Average Interest Rates %**	
	2018/19	**2019/20**	**2018/19**	**2019/20**
Fixed	**82.2**	**96.6**	**3.66**	**3.32**
Variable	**0.0**	**0.0**	**0.0**	**0.0**
Total	**82.2**	**96.6**	**3.66**	**3.32**

4. INVESTMENT ACTIVITY 2019/20

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 0.94%, approximately 16 basis points above the average return on 3 month LIBOR (0.78%) as at 28/02/20. This represents good performance amid concerns about Coronavirus, Brexit uncertainty, and expectations of a further Base Rate cut.

4.3 The Commissioner approved a list of counter parties with whom investments could be placed for 2019/20. At the 28 February 2020, the Commissioner had £87.9m invested with a range of maturity dates between one day and two years, and a further £5m with CCLA with no maturity date.

4.4 All of the Commissioner's investments are with UK based entities: 93% Local Authorities, 2% British Banks, 5% CCLA as at 28/02/20 (see Appendix D).

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 Link Asset Services, 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 Similarly all Local Authorities are eligible for inclusion on the counter party list because ultimately they have the support of the national government.

4.8 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.

4.9 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Commercial Services. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Commercial Services and the Commissioner's CFO. This will continue for the next financial year.

5 TREASURY STRATEGY STATEMENT 2020/21

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 2020/21 is attached at Appendix B.

5.2 Following the UK's decision to exit the EU from 31 January 2020 the expectations for interest rates over the next twelve months, which will be subject to continuous review with the Commissioner's treasury advisors and are caveated by recent market volatility following market responses to the Coronavirus outbreak, are as follows:

Short-term rates.

- The Bank of England Base Rate was lowered to 0.25% on 11 March 2020. Previous forecasts suggested that the rate would rise to 1% by June 2021. The forecast is now that rates could be cut to zero % in the spring and are expected to remain at very low levels for the remainder of 2020.

- The growth rate for the UK economy is expected to remain low because of the wider global economic conditions and in particular the short term impacts of Covid-19 on the UK and global economy. As the Base Rate underpins investment returns it is unlikely that this forecast is an under estimate especially if the economic growth is weaker than currently anticipated or there is negative fallout from the Brexit trade negotiations.

- The low interest rates will continue to depress future interest receivable estimates and an average investment return as low as 0.20% on new investments made in 2020/21 can be expected.

Long-term rates.

- Very long term rates (50 year PWLB rate) are expected to rise from 2.90% in April 2020 to around 3.20% by March 2021. The recent Base Rate cut is expected to affect these levels once the impact is felt.

- Long term rates (25 year PWLB rate) are expected to rise from around 3.00% to 3.30% during 2019/20. The recent Base Rate cut is also expected to affect these levels.

- The view of long term rates will affect the borrowing strategy in 2020/21. The revised Estates Strategy has highlighted the need to borrow and 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 2020/21 Budget and Precept were agreed in February 2020. 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, including the revised Estates Strategy, 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 2020/21 (including direct charges to revenue) is £5.2m.

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 Commercial Services 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 2019/20 set out in paragraphs 3 and 4, and the interest rate observations in paragraph 5.

b. approve the Treasury Strategy Statement for 2020/21 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.

Mark Kenyon
Chief Finance Officer
Police and Crime Commissioner

Neil Chamberlain
Director of Commercial Service
West Midlands Police

APPENDIX A

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 Commercial Services, and Assistant Director Finance in conjunction with representatives from the external advisors (Linked Asset Services).
    - Monthly monitoring is conducted by the Commissioner’s CFO, Director of Commercial Services and Assistant Director Finance.
    - On a daily basis by trained staff under the direction of the Assistant Director Finance.

APPENDIX B

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 2020/21

1.0 INTRODUCTION

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2020/21. 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 2020 will be as follows:

	£m
Long-term Debt	
- PWLB fixed rate	96.6
- PWLB variable rate	0.0
	96.6

2.2 The average rate of interest on the above debt is expected to be 3.32%.

2.3 The estimated value of investments at 1st April 2020 is £82.8m:

- £72.8m maturing between one day and up to a year.
- £5.0m maturing between one and two years.
- £5,0m placed with CCLA for at least five years.

3.0 PRUDENTIAL INDICATORS for 2020/21 to 2023/24

3.1 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.

3.2 The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

3.3 The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.

3.4 The Prudential Code 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. 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.

	2020/21 £m	**2021/22 £m**	**2022/23 £m**
Authorised limit for external debt - Borrowing	125.0	125.0	130.0
Operational boundary - Borrowing	120.0	120.0	125.0

The Commissioner's actual external debt as at 31/03/20 is currently expected to be £96.6m, 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.

	2020/21 %	**2021/22 %**	**2022/23 %**
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 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.

Upper limit of principal invested for periods over 364 days	£40m

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

3.5 In considering the capital programme for 2020/21, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	31 March 2019 £'m	**31 March 2020 £'m**	**31 March 2021 £'m**	**31 March 2022 £'m**	**31 March 2023 £'m**
Capital financing requirement (CFR)	42.6	80.1	95.1	97.6	97.0
External borrowing	-82.2	-96.6	-113.8	-118.8	-120.8
Variance	-39.6	-16.5	-18.7	-21.2	-23.8

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 Link Asset Services as a treasury advisor and has made use of their services in formulating a view on interest rates. LAS 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 Base Rate was reduced from 0.75% to 0.25% on 11 March 2020 as an emergency cut to shore up the economy amid the coronavirus outbreak. This was co-ordinated to have the maximum impact along with measures announced in the budget on the same day. The Monetary Policy Committee are due to meet at the end of March and there is a possibility there could be a further cut. The economic shock is being seen across the world as countries are impacted by the effect of coronavirus precautions on their businesses. Predictions by Link going forward do not have the base rate going above 1.00% in the next 24 months.

- **Long-term rates.**

PWLB rates are fluctuating strongly after falls in equity indices this week. The 50 year PWLB rate is expected to be around 2.90% at the start of 2020/21 before rising steadily over the period to 3.50% by March 2022. Similarly, the 25 year PWLB rate is estimated at 3.00% in early 2020/21 and then gradually rising to 3.60% by March 2022. These figures are highly subject to change given the current global economic climate as countries struggle to contain the emerging pandemic.

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 Link 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 standalone financial strength. However, these institutions are now recipients of at least an F2 short term rating (effectively taking on the creditworthiness of the Government). That is deposits made with them are effectively being made to the Government. This relates to National Westminster Bank and Royal Bank of Scotland.

5.7 The Commissioner's CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at Linked 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, Link Asset 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 the maximum value of investments that may be held:

Category of investment	**Maximum value for this category of investments**
Sterling deposits in excess of 364 days with Local Authorities and UK banks (where these are not "specified investments" as defined above).	£40m
Property Funds based in the UK	£5m

5.10 Property funds provide investors with a long term income and potential long-term capital appreciation. These type of funds are actively managed in a diversified portfolio of commercial property

5.11 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.

5.12 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.

5.13 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 likely that there will be a need to borrow further to fund the Estates Strategy over the life of the Capital Programme.

6.2 Forecasts suggest that there are potential borrowing options available. Short Term borrowing may be attractive throughout 2020/21 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 PWLB rates dropped to their lowest point in September/October 2019 before being increased by the Treasury on 9th October 2019. Alternative sources of borrowing are available and the Municipal Bonds Agency have issued a bond on behalf of a Local Authority.

6.4 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. If 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.

6.5 As long term borrowing rates are expected to be higher than rates on the loss of investment income, and look likely to be so going forward, 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.

6.6 The Commissioner's CFO will continue to cautiously monitor the interest rate market and adopt a pragmatic approach to any changing circumstances such as the evolving Estates Strategy or deployment of new technology.

7.0 TEMPORARY INVESTMENTS STRATEGY

7.1 Link has forecast Bank Base Rate to remain at 0.75% for 2020/21 although recent Monetary Policy Committee votes have not been unanimous in maintaining this level and there are calls for a cut.

7.2 Link Asset Services also predict that Bank Base Rate is unlikely to increase beyond 1.00% in the next 24 months, reducing anticipated returns on investments. 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 expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, and equipment. 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 2020/21, 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 2020/21

BRITISH BANKS & SUBSIDIARIES	FITCH RATING L/T	S/T	Viab	Sup	LIMIT £m	GROUP LIMIT	PERIOD
Lloyds Banking Group						30	6mth
Lloyds Bank	A+	F1	a	5	30		6mth
Bank of Scotland	A+	F1	a	5	30		6mth
RBS Group						60	1 year +
National Westminster	A+	F1	a	5	60		1 year +
Royal Bank of Scotland	A+	F1	a	5	60		1 year +
Close Brothers Ltd	A	F1	a	5	30		6mth
HSBC	A+	F1+	a	1	30		1 year
Bank of England (DMADF)					100		1 year +
Santander UK plc	A+	F1	a	2	30		6mth
Standard Chartered Bank	A+	F1	a	5	30		6mth
Barclays	A+	F1	a	1	30		6mth

BUILDING SOCIETIES	FITCH RATING L/T	S/T	Viab	Sup	LIMIT £m	PERIOD
Nationwide	A	F1	a	5	30	6mth
Leeds	A-	F1	a-	5	30	3mth
Skipton	A-	F1	a-	5	30	3mth
Yorkshire	A-	F1	a-	5	30	3mth
Coventry	A-	F1	a-	5	30	3mth

FOREIGN COUNTRIES	NATIONAL RATING	LIMIT £m	PERIOD
Australia	AAA	20	3mth
Canada	AAA	20	3mth
Denmark	AAA	20	3mth
Germany	AAA	20	3mth
Netherlands	AAA	20	3mth
Singapore	AAA	20	3mth
Sweden	AAA	20	3mth
Switzerland	AAA	20	3mth
USA	AAA	20	3mth

LOCAL AUTHORITIES		LIMIT for each LA £000	PERIOD
All Local Authorities		30	1 year+

Long Term Ratings AAA to DDD the best quality to junk bonds
Short Term Ratings F1+ to F3 the safest to the riskier
Viability Rating aaa to bbb as its title suggests
Support Rating 1 to 5 how well backed by sovereign nation
Local Authorities are assumed to have the same ratings as UK Government.

APPENDIX D

INVESTMENTS AS AT 28/02/20

Maturity	Borrower	Broker	Principal	Rate	Rating LT ST viab supp
			£	%	
02-Mar-20	Nat West	DIRECT	**1,900,000**	0.05	A+ F1 a 5
18-Mar-20	Cornwall Council	PREBON	**5,000,000**	0.72	Local Authority
18-Mar-20	Wirral MBC	CDB	**5,000,000**	0.75	Local Authority
25-Mar-20	Birmingham City Council	PREBON	**10,000,000**	0.73	Local Authority
25-Mar-20	Cheshire East Council	CDB	**5,000,000**	0.75	Local Authority
24-Apr-20	Eastleigh BC	PREBON	**5,000,000**	0.75	Local Authority
24-Apr-20	Liverpool City Council	BUTLERS	**5,000,000**	0.75	Local Authority
22-May-20	Darlington Borough Council	BUTLERS	**5,000,000**	0.80	Local Authority
22-May-20	Birmingham City Council	PREBON	**5,000,000**	0.77	Local Authority
06-Jul-20	London Borough of Croydon	PREBON	**10,000,000**	1.30	Local Authority
08-Jul-20	Isle of Wight County Council	PREBON	**15,000,000**	1.15	Local Authority
13-Aug-20	Staffordshire Moorlands DC	BUTLERS	**1,000,000**	2.05	Local Authority
28-Aug-20	Fife Council	BUTLERS	**5,000,000**	1.75	Local Authority
07-Sep-20	Slough BC	BUTLERS	**5,000,000**	0.90	Local Authority
25-Mar-22	Wokingham BC	PREBON	**5,000,000**	1.45	Local Authority
		TOTAL	**87,900,000**		
5 to 10 years	CCLA		**5,000,000**		Property Fund

Local Authorities	92.6%
Banks	2.0%
Building Societies	0.0%
CCLA	5.4%