Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 006 / 2016)

TITLE: Approval of Treasury Management Strategy Statement 2016/17 and Prudential Indicators 2016/17 to 2018/19

Executive Summary:

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

These codes were originally issued in 2002 and were later fully revised in 2009 and 2011. The TMSS also incorporates the Investment Strategy which is a requirement of the Communities and Local Government (CLG) Investment Guidance. This report proposes a strategy for the financial year 2016/17.

Treasury Management in Local Government continues to be a highly important activity. The Police and Crime Commissioner ("The Commissioner") adopts the CIPFA definition of Treasury Management which is as follows:

'the management of the organisation'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.'

Recommendation:

The Commissioner is asked to:

- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2016/17.
- Approve the Prudential Indicators for 2016/17 as described in paragraph 5 and as set out in detail at **Appendix B.**
- Approve the Minimum Revenue Provision Policy Statement for 2016/17 as set out in paragraph 6.
- Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website.
- Delegate to the Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit and Standards Committee.

Police & Crime Commissioner I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below. I hereby approve/do not approve the recommendation above
Police & Crime Commissioner / Chief Executive (delete as appropriate) **Signature:** **Date:**

PCC Executive Board
24 February 2016
Agenda Item No 09

Office of the Police and Crime Commissioner Report

Title: Treasury Management Strategy Statement 2016/17 and Prudential Indicators 2016/17 to 2018/19

Report of the Chief Finance Officer/Deputy Chief Executive.

Originating Officers: **Michelle Bellis, Deputy Chief Finance Officer;**
Lorraine Holme, Principal Financial Services Officer

1. Purpose of the Report

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

These codes were originally issued in 2002 and were later fully revised in 2009 and 2011. The TMSS also incorporates the Investment Strategy which is a requirement of the Communities and Local Government (CLG) Investment Guidance. This report proposes a strategy for the financial year 2016/17.

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'the management of the organisation'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.'

2. Recommendations

2.1. The Commissioner is asked to:

- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2016/17.
- Approve the Prudential Indicators for 2016/17 as described in paragraph 5 and as set out in detail at **Appendix B.**
- Approve the Minimum Revenue Provision Policy Statement for 2016/17 as set out in paragraph 6.
- Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website.
- Delegate to the Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit and Standards Committee.

2.2. The Joint Audit and Standards Committee are asked to review the Treasury Management Strategy Statement and Treasury Management Practices to be satisfied that controls are satisfactory and provide advice as appropriate to the Commissioner.

3. Background

3.1. The Commissioner is required to approve an annual Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management, which also incorporates an Investment Strategy as required by the Local Government Act 2003 and which is prepared in accordance with the Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year. Subsequent to the Local Government Act 2003, the system of Government control over borrowing to support capital spending has been replaced with a self-regulatory system of borrowing controls, based on a Prudential Code of Practice. Accordingly, this paper now brings together a schedule of Prudential Indicators alongside the Treasury Management Strategy for the Commissioner to endorse.

3.2. The Treasury Management Strategy has been prepared in line with the model guidance produced by Arlingclose Ltd, who provide specialist treasury management advice to the Commissioner. It should however be noted that all treasury management decisions and activity are the responsibility of the Commissioner and any such references to the use of these advisors should be viewed in this context.

4. Treasury Management Strategy 2016/17

4.1. General Principles

4.1.1. Treasury management activities involving, as they do, the investment of large sums of money and the generation of potentially significant interest earnings have inherent risks. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks. The main risks to the Commissioner’s treasury activities are outlined below:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Re-financing risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk.
- Fraud, error and corruption Risk

4.1.2. Details of the control measures the Commissioner has put in place to manage these risks are contained within the separate Treasury Management Practices (TMPs).

4.1.3. The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. However, the high profile near failure of major banks in 2008 highlighted that this objective must be sought within a context of effective management of counter-party risk. Accordingly, the Commissioner will continue to search for optimum returns on investments, but at all times the security of the sums invested will be paramount. This is a cornerstone of the CIPFA Code of Treasury Management

Practice which emphasises "**S**ecurity, **L**iquidity, **Y**ield in order of importance at all times". The security of the sums invested is managed by tight controls over the schedules of approved counter-parties, which are continually reviewed to take account of changing circumstances, and by the setting of limits on individual and categories of investments as set out at **Appendix A**.

The strategy also takes into account the impact of treasury management activities on the Commissioner's revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2016/17 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

4.2. External Guidance

4.2.1. The guidance under which this strategy is put forward comes from a variety of different places. Principally, however, the requirement to produce an annual Treasury Management Strategy is set out in the latest CIPFA Code of Practice on Treasury Management published in 2011. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) to produce an investment strategy as part of the wider Treasury Strategy. This is set out below at paragraph 4.6. Finally, the Commissioner's treasury advisor's Arlingclose Ltd have provided some advice about possible future trends in interest rates and advice on best practice in relation to the format of the TMSS.

4.3. Resources and the Current Treasury Position

4.3.1. Treasury Management activity is driven by the complex interaction of expenditure and income flows, but the core drivers within the Commissioner's balance sheet are the underlying need to borrow to finance its capital programme, as measured by the capital financing requirement (CFR), which is explored in detail in section 4.5 of this report, and the level of reserves and balances. In addition, day to day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner's level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner's strategy in determining exact borrowing and lending activity.

4.3.2. The estimated treasury position at 31st March 2016 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m
External Borrowing - PWLB – at start of year	0.000	0.000	0.000	0.000
Interest Payments	0.000	0.000	0.000	0.000
Investments (average)	13.504	11.106	9.895	8.667
Interest Receipts	0.100	0.135	0.170	0.170

4.3.3. The figures in the table above are based on the approval of the proposed revenue budget and capital programme presented to the Commissioner elsewhere on this agenda and are based on the interest rate assumptions as outlined in paragraph 4.4.4 below.

4.3.4. The estimate for interest payments in 2016/17 is Nil. This is based on the assumption that the Commissioner will not actually undertake any new borrowing to fund capital expenditure for the period of this forecast. This is not to say that there is no underlying need to borrow. The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £18.7m at the start of the 2016/17 financial year. This includes £5.1m which is the capital value of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009. The capital strategy paper elsewhere on this agenda illustrates that the Commissioner will not need to borrow to deliver the agreed capital programme. However, under current market conditions, where short term interest receipts are forecast to remain low in the immediate future, and there are continuing general uncertainties over the credit worthiness of financial institutions, it is assumed that the most prudent borrowing strategy for the present is to meet the capital funding requirement from within internal resources, by reducing cash balances available for investment. At some time in the future it will be necessary to undertake external borrowing. Advice will be sought from Arlingclose as to the most opportune time and interest rate to undertake such borrowing.

4.3.5. The estimate for interest receipts in 2016/17 is £100k (latest forecast for 2015/16 is £117k), which is comparable to recent years. The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.5% and is expected to remain at this level for the first two quarters of 2016/17.

4.3.6. The forecast interest receipts beyond 2016/17 reflects Arlingclose's view that interest rates will start to rise in September 2016 with a gradual pace of increases thereafter, with the average for 2016/17 being around 0.75%. (see table at 4.4.4 below).

4.4. Interest Rate Prospects

4.4.1. In recent months the market consensus of when the first interest rate rise will occur has shifted dramatically. At the start of 2015 the consensus had been for the first rate rise to occur in the second half 2015 but weak economic data and falling prices (negative inflation) pushed this back. The markets began pricing the first rise to occur in the first half of 2016. However, new concerns over the slowing global economy, caused by China, now mean that the market currently predicts the first rise to be even further into 2016. The Commissioners' treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time.

4.4.2. A number of economic indicators are important in judging when interest rates might rise, including:

- Inflation –the rate has tumbled over the last year with the biggest reason being the fall in the price of oil alongside heavy discounting in shops. This is showing no signs of change for the foreseeable future and is fuelling speculation that interest rates will remain lower for longer.

- UK economic growth – the UK economy had grown strongly in the second quarter of 2015 but then slowed during the third quarter of 2015. The slowdown was due to a big fall in construction output. Economic growth is now back at its pre-crisis level and a growing economy increases the prospect of an interest rate rise. However, in August 2015 concerns that China's economic growth rate slowed caused panic. Stock markets fell and economists rushed to factor in the impact of the world's second largest economy slowing on developed world economies. Growth rate forecasts everywhere were downgraded. This knock on effect on the UK will be slower growth and this in turn implies a delay in interest rises until growth stabilises.

- Unemployment – The number of people out of work fell again in the three months to November 2015 to the lowest rate in nearly a decade. This is well below the bank of England's old 'forward guidance' threshold. Wage growth continues to exceed inflation but the rate of increase has slowed. A lack of wage growth is a sign of slack in the economy which would make an early rise less

likely. But if wage growth improves then calls for an interest rate rise will increase. The development of wage growth is one of the factors being closely monitored by the MPC.

4.4.3. In summary persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside (i.e. lower rates for longer).

4.4.4. The main forward projections of interest rates provided by Arlingclose are shown in the table below. It should be noted that these forecasts are based on information as at December 2015. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Arlingclose Base Rate Estimates	2016	2017	2018
Quarter 1	0.50%	1.00%	1.50%
Quarter 2	0.75%	1.25%	1.75%
Quarter 3	0.75%	1.25%	1.75%
Quarter 4	1.00%	1.50%	2.00%

4.5. Borrowing Requirement and Strategy

4.5.1. Long Term Borrowing

The Commissioner's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR), which is one of the Prudential Indicators and represents the cumulative capital expenditure of the Commissioner that has not been financed from other sources such as capital receipts, capital grants, revenue contributions or reserves. To ensure that this expenditure will ultimately be financed, authorities are required to make a provision from their revenue accounts each year for the repayment of debt. This sum known as the Minimum Revenue Provision (MRP) is intended to cover the principal repayments of any loan over the expected life of a capital asset. The CFR together with Usable Reserves, are the core drivers of the Commissioner's Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the Commissioner must ensure that in the medium term, net debt will only be for capital purposes. Therefore the Commissioner must ensure that except in the short term, net debt does not exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and

next two financial years. In accordance with this requirement the Commissioner does not currently intend to borrow in advance of spending needs.

The table below shows the Commissioner's projected capital financing requirement for 2016/17 and beyond.

Capital Financing Requirement	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m
Balance B/fwd	18.714	18.400	17.977	17.546
Plus Capital Expenditure financed from borrowing	0.100	0.000	0.000	0.000
Less MRP for Debt Redemption	-0.414	-0.423	-0.431	-0.443
Balance C/Fwd	18.400	17.977	17.546	17.103

The above table shows only capital expenditure that is not financed from sources other than borrowing. The full capital programme and associated financing is reported in summary within the Prudential Indicators and in detail elsewhere on the agenda.

The Commissioner is not expected to have any external borrowing at the start of 2016/17. Given that the CFR is forecast to be £18.7m this effectively means that the Commissioner will be funding over £13.6m of capital spend from internal resources (CFR £18.7m less £5.1m in relation to PFI).

Currently, there is a significant differential between investment rates at 0.5% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 2.5% pa. Consequently, at this juncture, undertaking long term borrowing is likely to have a prohibitively high short term cost to the revenue account. However, such funding decisions may commit the Commissioner to costs for many years into the future and it is therefore critical that a long term view is taken regarding the timing of such deals. It should also be recognised that by funding internally, there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the Commissioner, in conjunction with its treasury advisor Arlingclose Ltd, will continue to monitor market conditions and interest rate prospects on an on-going basis, in the context of the Commissioner's capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

4.5.2. Short Term Borrowing

Short term loans will only be used in exceptional cases to manage day to day movements in cash balances, or over a short term period to enable aggregation of existing deposits into longer and more sustainable investment sums.

4.6. Investment Strategy

4.6.1. The Local Government Act 2003, Section 15(1)(a) requires the Commissioner to approve an investment strategy. Supplementary guidance produced by the Department for Communities and Local Government (CLG) requires, as a minimum, that the following areas are addressed: -

General policy

The guiding principle is that Authorities should invest prudently the temporary funds held on behalf of local communities. This has always been the cornerstone of our investment strategy. It is also consistent with the CIPFA guidance which has been re-iterated in the latest revision of the Treasury Management code, which sets out that the effective containment of risk should be a primary objective of the Treasury Management strategy and that achieving optimum performance is a proper but secondary objective.

*The updated investment guidance emphasises "**Security, Liquidity, Yield** in order of importance at all times".*

In the past the investment strategy has operated criteria based on credit ratings to determine the size and duration of investments it is willing to place with particular counterparties. The credit worthiness of counterparties is reviewed on an ongoing basis in conjunction with the Commissioner's treasury advisors (Arlingclose Ltd).

The Commissioner holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16, the Commissioner's investment balance has ranged between £13.2m and £34.2m. The larger sum is due to the receipt in July 2015 of £15.6m pension top up grant from the Home Office which is drawn down steadily over the remainder of the year. Balances in 2016/17 are forecast to be similar to those of 2015/16. It is anticipated that some grant funding may be received in advance of the capital spend and at the peak, when the pensions grant is received in July, balances for investment could approach £40m.

Credit Rating - Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In addition to credit ratings, the Commissioner and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Sovereign support mechanisms
- Share prices
- Corporate developments, news, articles, market sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

The investment strategy for 2015/16 was opened up slightly to include some additional classes of investment to allow more flexibility and diversification. The strategy for 2016/17 remains the same. The decision to enter into a new class of investment is delegated to the Commissioner's Chief Finance Officer. A full explanation of each class of asset is provided in Appendix A together with a schedule of the limits that will be applied.

4.6.2. Specified and non-specified investments

The DCLG guidance categorises investments as 'specified' and 'non-specified'.

Specified investments are sterling denominated instruments with a maximum maturity of 364 days. They also meet the "high credit quality" criteria as determined by the Commissioner and are not deemed capital expenditure investments under statute.

High credit quality specified investments are defined by the Commissioner as those that meet its counterparty selection criteria as outlined in **Appendix A**.

Non specified investments are, effectively, everything else and, so far as an investment strategy is concerned, need to be set out in more detail, with appropriate limits set so as to minimise any exposure to risk. The strategy should also set out the basis upon which any non-specified investments are made, including how financial advice is sought.

So far as the Commissioner is concerned, investment strategies have always been limited to counterparties with high credit ratings. The current policy permits 'Non- Specified' investments (principally to facilitate lending for periods beyond 364 days) subject to:

- a maximum of three years duration.
- Counterparties with a minimum credit rating of A- (or equivalent).
- an overall limit of £5m.

There is currently one investment that at the time of transacting were for a period of greater than 364 days and as such would have been classified as 'Non-Specified' investments. At this point in time, the investment does not have a maturity greater than 364 days. There are no changes proposed to the criteria for making "Non-specified investments" as set out above. The option remains to make such investments with very highly rated counterparties up to the limit of £5m should suitable opportunities arise. All such investments would require prior approval by the Commissioner's Chief Finance Officer.

The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and its advisors Arlingclose Ltd will continuously monitor corporate developments and market sentiment with regards to counterparties and will amend the approved counterparty list and lending criteria where necessary. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy. It is proposed to continue the policy, adopted last year that the Commissioner's Chief Finance Officer, subject to consultation with the Commissioner, be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow. The Joint Audit and Standards Committee will be updated on any changes to policy. The performance of the Commissioner's treasury advisors and quality of advice provided is evaluated prior to the annual renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

4.6.3. The use of Financial Instruments for the Management of Risks

Currently, Local Authorities (including PCC's) legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. The Commissioner has no plans to use derivatives during 2016/17. Should this position change, the

Commissioner may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require explicit approval.

4.6.4. Liquidity of investments

The investment strategy must lay down:

- The principles which are to be used in determining the amount of funds which can prudently be committed for more than one year i.e. what DCLG defines as a long term investment.

For the Commissioner, the total of investments over 364 days in duration are limited to £5m with a maximum duration of three years. This policy balances the desire to maximise investment returns, with the need to maintain the liquidity of funds.

Under current market conditions there is still little opportunity to generate significant additional investment income by investing in longer time periods over 364 days. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2016/17 amounts to £100k (£117k 2015/16) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit and Standards Committee as background information to provide guidance and support when undertaking scrutiny of Treasury Management procedures.

4.7. Treasury Management and Risk

4.7.1. The Commissioner's approach to risk is to seek optimum returns on invested sums, taking into account at all times the paramount security of the investment. The CIPFA Code of Practice and Treasury Management Practices (as set out below in para. 4.8) sets out in some detail defined treasury risks and how those risks are managed on a day to day basis.

4.8. Treasury Management Practices

4.8.1. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- Best Value and Performance Management

- Decision Making and Analysis
- Approved Instruments
- Organisation, Segregation of duties and dealing arrangements
- Reporting and Management Information requirements
- Budgeting, Accounting and Audit
- Cash and cashflow management
- Avoidance of money laundering
- Training
- Use of external service providers
- Corporate Governance

Treasury Management is a specialised and potentially risky activity which is currently managed on a day to day basis by the Financial Services Team under authorisation from the Commissioner's Chief Finance Officer as part of a shared service arrangement for the provision of financial services. The training needs of treasury management staff to ensure that they have appropriate skills and expertise to effectively undertake treasury management responsibilities is addressed on an ongoing basis.

Specific guidance on the content of TMPs is contained within CIPFA's revised code of Practice for Treasury Management. Accordingly, the TMPs have been reviewed in detail and where necessary minor amendments have been made to bring the TMPs into line with The Code.

5. Prudential Indicators 2016/17

5.1. Background

5.1.1. The Local Government Act 2003 provides the framework for capital finance, based on statutory compliance with a 'Prudential Code', most recently updated in 2011. Local Authorities including PCC's are now free to borrow, so long as the ensuing costs falling on the revenue account are deemed to be Affordable, Prudent and Sustainable. In this context, affordable is deemed to mean in relation to the Commissioner's overall spending plans.

5.2. Objectives of the Prudential Code

5.2.1. The key objectives of The Code are to ensure, within a clear framework, that Capital investment plans are affordable, prudent and sustainable (or to highlight, in exceptional cases, that there is a danger this will not be achieved so that the Commissioner can take remedial action). To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out the Indicators that must be used. The indicators required by The Code are designed purely to support local decision making and are specifically not designed to represent comparative performance indicators. Use of them in this way would be misleading and counterproductive, not least as Authorities have very different levels of debt, capital plans etc.

Separate groups of indicators are required in the following three specified areas:

- Affordability
- Prudence
- Capital Expenditure / External Debt / Treasury Management

The overriding objective in the consideration of the affordability of the Commissioner's capital plans is to ensure that the planned capital investment of the Commissioner remains within sustainable limits, and, in particular, to consider the impact on the overall cost to the Commissioner as expressed by the effect on the Council Tax.

5.3. Prudential Indicators 2016/17

5.3.1. The Prudential Indicators required by The Code of Practice are attached at **Appendix B**, together with a brief explanation of the purpose of each indicator and the assumptions which have been used in preparing the indicators.

5.4. Setting, Revising, Monitoring and Reporting

5.4.1. Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Commissioner's Chief Financial Officer has a prescribed responsibility under The Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner.

6. Annual MRP Statement for 2016/17

6.1. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on authorities to make a prudent provision for debt redemption, this is known as the **Minimum Revenue Provision** (MRP). Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such guidance under section 21(1A) of the Local Government Act 2003. This sum known as the MRP is intended to cover the principal repayments of any loan over the expected life of a capital asset.

6.2. The DCLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by The Commissioner. This is now by agreement encompassed within the TMSS.

6.3. The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure, which gave rise to the debt, provides benefits.

The four options available for calculating MRP are set out below:

- Option 1 – Regulatory Method based on 4% of the CFR after technical adjustments.
- Option 2 – CFR Method, based on 4% of the CFR with no technical adjustments.
- Option 3 – Asset Life Method, spread over the life of the asset being financed.
- Option 4 – Depreciation Method, based on the period over which the asset being financed is depreciated.

6.4. It is proposed that The Commissioner's MRP policy for 2016/17 is unchanged from that of 2015/16 and that The Commissioner utilises option 1 for all borrowing incurred prior to the 1st April 2008 and option 3 for all borrowing undertaken from 2008/09 onwards, irrespective of whether this is against supported or unsupported expenditure. This policy establishes a link between the period over which the MRP is charged and the life of the asset for which borrowing has been undertaken. It is proposed that a fixed instalment method is used to align to the Commissioner's straight line depreciation policy.

6.5. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability. This will not result in an additional charge to the Commissioner's revenue budget as this is part of the capital repayment element of the PFI unitary charge.

7. Balanced Budget Requirement

7.1. The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget.

8. Reporting on Treasury Activities

8.1. In accordance with The Code of Practice for Treasury Management, the Commissioner will approve the Annual TMSS, receive, a quarterly summary of treasury activity, a mid-year update on the strategy and an annual report after the close of the financial year.

8.2. The Joint Audit and Standards Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint and Standards Committee terms of reference in relation to treasury management are:

- Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
- Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity.
- Review the treasury risk profile and adequacy of treasury risk management processes.
- Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

8.3. The DCLG Guidance on investments states that publication of strategies is now formally recommended, the full suite of strategy documents will be published on the Commissioner's website once approved.

Appendix A

Counterparty Selection Criteria and Approved Counterparties

1. Background

1.1. The lending criteria set out below are designed to ensure that, in accordance with The Code of Practice, the security of the funds invested is more important than maximising the return on investments. Following consultation with the Commissioner's treasury advisors Arlingclose Ltd there are no amendments to the criteria used in determining approved investment counterparties for 2016/17 compared to those in operation for 2015/16.

2. Counterparty Selection Criteria

2.1. The agreed changes to the selection criteria for investment counterparties for 2015/16 included changes to the investment categories, a reduction in the maximum amount and duration lengths for investments. This was to encourage diversification and to increase the security of those funds invested. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.

2.2. The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd who provide timely updates and advice on the standing of counterparties. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy. In the event that this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit and Standards Committee will be advised through the quarterly activities report.

2.3. The approved investment counterparties for the 2016/17 investment strategy are summaried as follows:

Category	Description	Comments
Category 1	Banks Unsecured	Includes building societies
Category 2	Banks Secured	Includes building societies
Category 3	Government	Includes other Local Authorities
Category 4	Registered Providers	Includes providers of social housing e.g. Housing Associations
Category 5	Pooled Funds	Includes Money Market Funds and property funds

2.4. A more detailed explanation of each of these counter party groupings in provided in Schedule B (page 20).

3. Counterparty Groupings

3.1. The criteria for approving investment counterparties have been devised, grouped and graded as detailed in **Schedule A** (page 19).

4. Description of Credit Ratings

4.1. As outlined in paragraph 2.2 above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd. A description of each of the credit rating is provided at **Schedule C** (page 21-23).

5. Counterparty Limits

5.1. The limitations on the amounts to be invested in the various categories of counterparty are set out in **Schedule A** (page19). The limits are based on a percentage of the potential maximum sums available for investment during the year which have been forecast as up to £40m.

Schedule A – Counterparty Groupings and Associated Limits

Investment Limits						
Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
Category Limit 2016/17	*Amount*	*£20m*	*£20m*	*Unlimited*	*£10m*	*£15m*
	Duration					
Individual Institution/Group Limits						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2016/17 are based on the potential maximum available for investment during the year which has been estimated at up to £40m.

The maximum of all investments with outstanding maturities greater than 364 days will be £5m.

The only approved exception to the above limits is in relation to NatWest Bank (currently rated BBB+), the Commissioner's day to day banking service provider. Advice will be sought from Arlingclose with regards to acceptable levels of cash balances held in "on demand" accounts for cash flow purposes.

Schedule B – Explanation of Counterparty Groupings

Class of Investment
Category 1 - Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a ***bail-in*** should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Commissioner's current account bank Nat West plc.
Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other secured arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
Category 3 - Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to ***bail-in***, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
Category 4 - Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.
Category 5 - Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value (NAV) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner's investment objectives will be monitored regularly.

Schedule C – Description of Credit Ratings – Long Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Long Term Rating	This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to DDD. • AAA Highest credit quality ‘AAA’ ratings denote the lowest expectation of credit risk.They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be affected by foreseeable events. • AA Very high credit quality ‘AA’ ratings denote a very low expectation of credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. • A High credit quality ‘A’ ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. **The Commissioner will confine investments to those institutions with a minimum rating of A-.**	This category of ratings applies to investments over 12 months. The grading is in the range Aaa, Aa, A, etc, down to C. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa to Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. • Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. • Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. • A Obligations rated A are considered upper-medium grade and are subject to low credit risk. **The Commissioner will confine investments to those institutions with a minimum rating of A1.**	This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to D. The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. • AAA: An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. • AA: An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. • A: An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. **The Commissioner will confine investments to those institutions with a minimum rating of A-.**

Schedule C – Description of Credit Ratings – Short Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Short Term Rating	This category of ratings generally applies to investments of up to 12 months. The grading is in the range F1, F2, F3, B, C, D. • F1 Highest credit quality Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote an exceptionally strong credit feature. **The Commissioner will confine investments to those institutions with a minimum rating of F1.**	This category of ratings generally applies to investments of up to 12 months. The grading is in the range P1, P2, P3, NP (not prime). • P1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations. **The Commissioner will confine investments to those institutions with a minimum rating of P1.**	This category of ratings generally applies to investments of up to 12 months. The grading is in the range A1,A2, A3, B1, B2, B3, C, D. • A1 A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. **The Commissioner will confine investments to those institutions with a minimum rating of A1.**

Schedule C – Description of Credit Ratings – Support Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Support Rating (Fitch)	This category of assessment does not rate the quality of the banking institution, but represents the analyst's view of whether the bank would receive State or other support should this be necessary. The gradings are in the range 1 – 5, although as set out above, the strategy is to restrict such investments to grades 1 - 3: • 1) A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. • 2) A bank for which, in the Analyst's opinion, there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to support the bank in question. • 3) A bank for which, in the Analyst's opinion, there is a moderate probability of external support, because of uncertainties about the ability or propensity of the potential provider of support to do so.	Not applicable	Not applicable

Appendix B

Prudential Indicators 2016/17 to 2018/19

Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003, the Prudential Code was revised in November 2011. Local Authorities (which includes Police and Crime Commissioner's) are free to determine their own level of capital investment controlled by self-regulation. The exercise of these new freedoms is subject to compliance with the requirements of the CIPFA Prudential Code, which is made a statutory requirement under the provisions of the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

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 Commissioner should operate to ensure that the objectives of the Prudential Code are met.

Prudential Indicators

The Prudential Indicators for which the Commissioner is required to set limits are as follows:

1. Net Borrowing and the Capital Financing Requirement

This is a key indicator of Prudence. This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

> 'In order to ensure that over the medium term net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years'.

The Commissioner's Chief Financial Officer reports that the Commissioner had no difficulty meeting this requirement for 2014/15, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2016/17 budget. The table below provides a comparison of net borrowing and the Capital Financing Requirement.

Comparison of Net Borrowing and the Capital Financing Requirement					
	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Net Debt (section 9 below provides analysis)	(14.143)	(8.016)	(8.492)	(6.219)	(5.150)
Capital Financing Requirement as at 31 March	17.037	18.714	18.400	17.977	17.546

2. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

The actual amount of capital expenditure that was incurred during 2014/15, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2016/17 budget plus known requirements in both 2017/18 and 2018/19 are set out in the table below.

Capital Expenditure	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Expenditure	9.459	10.646	6.883	9.836	6.684

Capital expenditure will be financed or funded as follows:

Capital Financing	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Receipts	1.067	0.000	0.000	0.000	0.898
Government Grants	0.521	0.576	1.945	6.336	2.303
Revenue Contributions	7.829	8.025	4.838	3.500	3.483
Total Financing	**9.417**	**8.601**	**6.783**	**9.836**	**6.684**
Borrowing *	0.042	2.045	0.100	0.000	0.000
Total Funding	**0.042**	**2.045**	**0.100**	**0.000**	**0.000**
Total Financing and Funding	**9.459**	**10.646**	**6.883**	**9.836**	**6.684**

* In the current financial climate the decision has been taken to borrow internally rather than from the PWLB which will be reflected in the capital financing requirement indicator.

3. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income. The Commissioner’s financing costs can be both positive and negative dependent on the relative level of interest receipts and payments.

The actual Net Revenue Stream is the ‘amount to be met from government grants and local taxation’ taken from the annual Statement of Accounts, budget, budget proposal and medium term financial forecast. These figures are purely indicative and are, in particular, in no way meant to indicate planned increases in funding from Council Tax.

Council Tax Increase of 1.9% from 2016/17

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Financing Costs	0.207	0.242	0.314	0.288	0.262
Net Revenue Stream	96,714	94,871	95,222	96,171	97,149
Ratio	0.21%	0.26%	0.33%	0.30%	0.27%

4. Capital Financing Requirement

The capital financing requirement (CFR) is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Commissioner has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows, and the day to day position of external borrowing and investments can change constantly.

The CFR concerns only those borrowing transactions arising from capital spending, whereas the total amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

The CFR as presented below now includes a figure in respect of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009.

Capital Financing Requirement	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Financing Requirement as at 31 March.	17.037	18.714	18.400	17.977	17.546

5. The Authorised Limit

The Authorised Limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

The Commissioner should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).

The following Authorised Limits for external debt, excluding temporary investments are recommended:

Authorised Limit for External Debt	2016/17 £m	2017/18 £m	2018/19 £m
External Borrowing	19.888	19.591	19.301
Other Long Term Liabilities	5.012	4.887	4.745
Total Authorised Limit	24.900	24.477	24.046

6. Operational Boundary

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

Consistent with the Authorised Limit, the Commissioner's Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long Term Liabilities. Any such changes will be reported to the

Commissioner and the Joint Audit and Standards Committee meeting following the change. The following limits for each year's Operational Boundary, excluding temporary investments are recommended:

Operational Boundary for External Debt	2016/17 £m	2017/18 £m	2018/19 £m
External Borrowing	18.388	18.091	17.801
Other Long Term Liabilities	5.012	4.887	4.745
Total Operational Boundary	23.400	22.977	22.546

7. Actual External Debt

The Commissioner's actual external debt as at 31 March 2016 will be £5.122m, comprising other long term liabilities of £5.122m in relation to the PFI. It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing. It should be noted that all external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

8. The Incremental Impact of Capital Investment Decisions on the Council Tax

This is an indicator of affordability that shows the impact of capital investment decision on Council Tax. This indicator identifies specifically the additional cost to the taxpayer of the **new capital investment** proposed in the 2016/17 to 2018/19 Capital Programme.

The impact identifies the revenue expenditure that will arise as a result of approval of the 2016/17 capital programme. The revenue effects of previously approved capital schemes are not included in this indicator.

The impact has been calculated using forward estimates of funding consistent with expectations in the latest medium term forecast.

The impact on the revenue budget, and therefore the Council Tax, is felt by a combination of the following: debt costs of the new borrowing, the amount set aside from revenue to repay the principal element of

external borrowing (Minimum Revenue Provision), the revenue impact of a capital project (e.g. running costs or savings of a new asset) and Direct Revenue Contributions.

It should be noted that borrowing itself does not fund capital expenditure since the loans have to be repaid eventually. The actual funding comes from the Minimum Revenue Provision, which is statutorily charged to revenue each year.

The estimate of the impact of the capital investment approved in the 2016/17 Budget on the Council Tax is set out in the table below. The figures are not cumulative and show the actual impact in each year.

Impact of capital investment decisions on the Council Tax	2016/17 £	2017/18 £	2018/19 £
Capital Expenditure funded from revenue	1.534m	1.573m	1.555m
Financing and direct revenue costs	0.000m	0.000m	0.000m
Total Incremental Revenue Effect of Capital Investment	1.534m	1.573m	1.555m
Incremental Impact on Band D Council Tax	9.146	9.481	9.302

9. Gross and Net Debt

The purpose of this treasury indicator is to highlight a situation where The Commissioner is planning to borrow in advance of need.

Gross and Net Debt	2016/17 £m	2017/18 £m	2018/19 £m
Outstanding Borrowing (at notional value)	-	-	-
Other Long Term Liabilities (PFI & Finance Lease at notional value)	5.012	4.887	4.745
Gross Debt	**5.012**	**4.887**	**4.745**
Less Investments	13.504	11.106	9.895
Net Debt	(8.492)	(6.219)	(5.150)

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10. Fixed Interest Rate Exposures

It is recommended that The Commissioner sets an upper limit on its fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates	2016/17 £m	2017/18 £m	2018/19 £m
Net Principal sums Outstanding at Fixed Rates	24.90	24.48	24.05

This represents the position that all of the Commissioner's authorised external borrowing may be at a fixed rate at any one time.

11. Variable Interest Rate Exposures

It is recommended that the Commissioner sets an upper limit on its variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates	2016/17 £m	2017/18 £m	2018/19 £m
Net Principal sums Outstanding at Variable Rates	1.50	1.50	1.50

This is the maximum external borrowing judged prudent by the Commissioner's Chief Finance Officer that the Commissioner should expose to variable rates.

12. Maturity Structure of Borrowing

It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

This indicator is primarily applicable to authorities which have undertaken significant levels of borrowing to finance their capital programmes in which case it is prudent to spread the profile of repayments to safeguard against fluctuations of interest payments arising from having to refinance a large proportion of the debt portfolio at any point in time. During 2012/13 the Commissioner repaid all outstanding external borrowing and as a result there is currently no requirement to apply stringent limits to the maturity profile of existing debt.

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	100.00	0
12 months and within 24 months	100.00	0
24 months and within 5 years	100.00	0
5 years and within 10years	100.00	0
10 years and above	100.00	0

13. Investments for longer than 364 days

The Treasury Management Strategy allows “non-specified” investments for periods of up to 5 years. The maximum of all investments with outstanding maturities greater than 364 days will be £5m.