



Peter McCall

Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 001/ 2019)

TITLE: Approval of the Capital Strategy, Capital Programme and Treasury Management Strategy 2019/20

Executive Summary:

The purpose of this report is to provide information on the proposed capital strategy for 2019/20. The capital strategy (item 10a) is an overarching strategy that sits above the two documents which have been produced historically namely the capital programme (item 10b) and the treasury management strategy statement (item 10c). The capital strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. To meet these requirements, all schemes within the 4 year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts or revenue contributions.

Recommendations:

1.1. Capital Strategy (Item 10a) – The Commissioner is asked to approve the capital strategy including the prudential indicators set out in the report.

1.2. Capital Programme (Item 10b) - The Commissioner is asked to:

- Approve the capital programme for 2019/20 and beyond as part of the overall budget process for 2019/20.
- Approve the status of capital projects as outlined in paragraph 3.1 and as detailed in appendices 2 to 5.

1.3. Treasury Management Strategy (Item 10c) - The Commissioner is asked to:

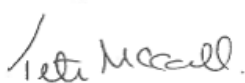
- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2019/20.
- Approve the Prudential Indicators Specific to Treasury Management for 2019/20 as described in paragraph 5.
- Approve the Minimum Revenue Provision Policy Statement for 2019/20 as set out in paragraph 6.
- Approve the Investment Strategy for 2019/20 as set out in paragraph 4.6
- 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 Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit 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: 20th February 2019



Office of the Police and Crime Commissioner Report

Public Accountability Conference 20 February 2019

Title: Capital Strategy 2019/20

Report of the Joint Chief Finance Officer

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

1. Purpose of the Report

- 1.1. This capital strategy is a new report for 2019/20, intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2. The aim of this report is to provide enough detail to allow non-financial decision makers to understand how stewardship, value for money, prudence, sustainability and affordability will be secured without repeating in detail the information that is contained in other documents presented as part of this suite of capital and treasury management reports (agenda items 10b & 10c)
- 1.3. These reports meet the reporting requirements of the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code for capital finance in Local Authorities 2017 updated guidance.

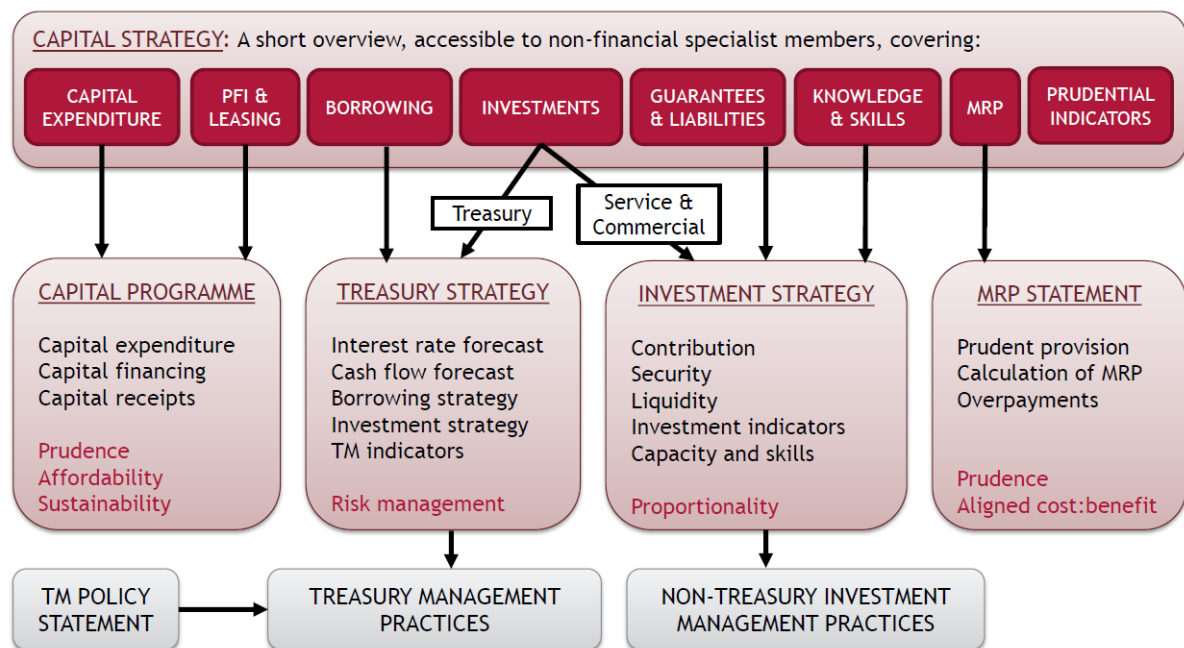
2. Recommendations

2.1. The Commissioner is asked to approve the contents of the report including the Prudential Indicators (as set out in the main body of the report in sections 3 to 7):

3. Introduction

3.1. The CIPFA Prudential Code (the code) and guidance notes were originally issued in 2002 and were later fully revised in 2009, 2011 and again in 2017. This new code requires the Commissioner to look at capital expenditure and investment plans in light of the overall strategy and resources and ensure that the decisions are being made with sufficient regard to the long run implications and potential risks to the Commissioner.

3.2. This capital strategy report provides an overview covering the following report structure:



*The MRP Statement and the Investment Strategy of the Commissioner are encompassed into the Treasury Management Strategy.

3.3. 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 Joint Chief Finance 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 at his Public Accountability Conference.

4. Capital Expenditure and Financing

4.1. Capital expenditure is the term used to describe expenditure on assets, such as property, vehicles and ICT equipment, that will be used (or have a life) of more than 1 year. There is some limited discretion on what is to be treated as capital expenditure and assets costing less than £25k will be charged to the revenue account in accordance with the Financial Rules and Regulations (this is known as the deminimis level).

Prudential indicator of affordability – Estimates of capital expenditure

4.2. The capital expenditure estimates for the current year and four year medium term are shown below:

Capital Expenditure	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Expenditure	5.25	6.05	8.71	9.47	5.35	8.34

4.3. The profile of capital expenditure fluctuates annually. Across the current four year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £2.5m on estate schemes and around £3.3m for replacement of ICT systems and equipment. ICT Expenditure reflects the Constabulary Strategy to invest in technology to support the delivery of operational policing and provide efficient business processes; schemes include the replacement of a number of control room systems with a single integrated solution and the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). Expenditure on Estates schemes over the 4 years includes the construction of the Eden Deployment Centre and the commencement of a scheme to provide a territorial headquarters in the west of the county (subject to option appraisal and formal approval). Smaller rolling replacement schemes are also included in all sections.

4.4. Budget holders are consulted in early October each year to review the previously approved 10 year capital investment plan, make changes based on latest information and project it forward one more year. These submissions are amalgamated and the resources available are applied. Shortfalls identified will need to be funded by increased revenue contributions or borrowing. Capital over the medium term is fully financed. Currently the Commissioner holds no external borrowing, however there is an underlying borrowing requirement, which is currently funded through internal borrowing.

Internal Borrowing – the practice of using reserves and provisions that have been set aside for future use to fund capital expenditure plans now. External borrowing comes with interest payments of currently 3%+ where investments are barely making 1% return in terms of interest, therefore there is an incremental cost to borrow in advance of need (known as cost of carry). This is therefore discouraged if there are cash reserves available that can be drawn down as an alternative to borrowing.

- 4.5. Over the 10 year capital plan there is currently a £1.8m shortfall in funding. Capital expenditure plans of this length depend greatly on estimated figures regarding future business requirements. Budget holders have been tasked with looking at their capital plans to refine their estimates and attempt eliminate this funding shortfall.
- 4.6. Before the commencement of each financial year the schemes for that year are revisited to be assigned an approval category. Large schemes which have previously been approved by the Commissioner following submission of a business case and the smaller rolling replacement schemes are approved on a firm basis or delegated to the Joint Chief Finance Office for future approval. Schemes requiring business cases, option appraisals and financial appraisals are given the status of indicative until they have been thoroughly scrutinised by all relevant business leads before being passed to the Police and Crime Commissioner for final approval.
- 4.7. All capital expenditure must be financed from one of three places:
- External sources, such as government grants or contributions
 - Internal resources - revenue budgets, capital reserves or capital receipts.
 - Debt – borrowing, Private Finance Initiative, leasing

The planned financing of the above expenditure is as follows:

Capital Financing	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Receipts	0.00	0.00	0.00	1.96	0.16	0.00
Government Grants	0.00	0.58	2.77	4.11	0.37	0.00
Revenue Contributions	5.25	5.47	5.94	3.40	4.82	4.94
Total Financing	5.25	6.05	8.71	9.47	5.35	4.94
Borrowing *	0.00	0.00	0.00	0.00	0.00	3.40
Total Funding	0.00	0.00	0.00	0.00	0.00	3.40
Total Financing and Funding	5.25	6.05	8.71	9.47	5.35	8.34

* All borrowing in the table is internal although towards the end of the medium term it will be necessary to externalise our borrowing.

4.8. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing. The Commissioner is required to set aside a sum each year from the revenue budget to repay borrowing, which is linked to the life of the asset being financed. This is known as the minimum revenue payment (MRP) and can be likened to the minimum repayment on a credit card debt. The estimates for the repayment of internal borrowing from the revenue budget is shown below:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Minimum revenue provision	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Minimum revenue provision for the financial year	0.42	0.43	0.49	0.50	0.53	0.55

4.9. The capital financing requirement (CFR) is a measure of the amount of capital spending that has not yet been financed by capital receipts, grants or contributions, it is in essence the amount of internal debt finance of the Police and Crime Commissioner. The CFR increases each time there is new capital expenditure financed by debt and decreases with MRP repayments, capital receipts assigned to repay debt or by making additional voluntary contributions. The current and estimated CFR levels are shown below but it should be noted that these include an amount for the PFI financing of on average £4.5m.

Prudential indicator of affordability – Capital Financing Requirement

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Capital Financing Requirement	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Capital Financing Requirement as at 31 March.	17.98	20.85	22.30	21.69	21.05	23.80

4.10. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debts. The capital financing has been forecast assuming that all capital receipts will be used to finance new assets rather than reduce existing debt. Estimated capital receipts for the medium term are as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Capital Receipts	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Asset sales	0.52	0.66	0.55	0.00	0.24	1.00

- 4.11. To ensure that capital assets continue to be of long term use and facilitate delivery of strategic objectives, there are Estates, Fleet and ICT strategies produced which are reviewed and approved annually.
- 4.12. Full details of the 10 year programme can be found in the separate report 'Capital Programme 2019/20 to 2028/29' (item 10b on this agenda).

5. Treasury Management

- 5.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet spending needs while managing the risks involved. Surplus cash is invested until required while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Police and Crime Commissioner is generally cash rich in the short term due to the level of reserves currently held and revenue grants being received in advance of spend, but cash poor in the long term due to capital expenditure being incurred in advance of being financed.
- 5.2. **Borrowing Strategy** - The main objectives when borrowing are to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Commissioner therefore seeks to strike a balance between low cost short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 3.0%+). Current forecasts show that short term borrowing, probably from other local authorities, may be required at the start of 2020/21 to bridge a shortfall in cash in advance of receipt of the new financial year's revenue grants.

The Commissioner's actual external debt as at 31 March 2019 will be £4.75m, comprising other long term liabilities of £4.75m 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.

Projected levels of the total outstanding debt are shown below compared with the capital financing requirement (CFR).

Gross Debt and Capital financing requirement	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Closing CFR 31 March	17.55	17.06	16.56	16.03
Gross Debt 31 March	4.75	4.58	4.40	4.20

Prudential indicator of prudence – Gross debt and the Capital Financing Requirement

Statutory guidance is that external debt should remain below the CFR in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two financial years this is to ensure that borrowing is only for capital purposes. The Commissioner remains well within this limit.

Liability Benchmark - The 2017 code encourages Authorities to define their own ‘Liability Benchmark’ which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Arlingclose are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the ‘cost of carry’, development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

As an assurance that borrowing is only undertaken for capital purposes and is sustainable, the Commissioner is required to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with the statutory guidance a lower ‘operational boundary’ is also set as a warning level should debt approach the limit.

Prudential indicator of affordability – Authorised limit and operational boundary for external debt

Authorised Limit for External Debt	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
External Borrowing	18.977	18.654	18.334	21.417
Other Long Term Liabilities	4.585	4.403	4.197	3.965
Total Authorised Limit	23.562	23.057	22.531	25.382

Operational Boundary for External Debt	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
External Borrowing	17.477	17.154	16.834	19.917
Other Long Term Liabilities	4.585	4.403	4.197	3.965
Total Operational Boundary	22.062	21.557	21.031	23.882

Further details on the borrowing strategy are on pages 7 to 9 of the treasury management strategy (agenda item 10c).

- 5.3. **Investment strategy** - Treasury investments arise from receiving cash before it is paid out again. The Commissioner makes investments because he has a cash surplus as a result of his day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments). The Commissioner does not make investments to support local public services by

lending to or buying shares in other organisations (service investments), or to earn investment income (known as commercial investments where investment income is the main purpose).

The Commissioner's policy on treasury investments is to prioritise **security** and **liquidity** over **yield**; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy (subject to strict criteria) and the Commissioner may request his money back at short notice.

Estimates of investment levels and investment income are shown below:

Estimated Treasury Position	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Investments (average)	15.185	9.816	7.376	4.563
Interest Receipts	0.120	0.165	0.140	0.115

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Joint Chief Finance Officer and Financial Services staff, who must act in line with the treasury management strategy approved by the Commissioner. Quarterly reports on treasury management activity are presented to the Joint Audit Committee. The Joint Audit Committee is responsible for scrutinising treasury management decisions.

Prudential indicators relating to treasury management activities are set out in the treasury management strategy.

Further details on treasury investment strategy are on pages 9 to 13 of the treasury management strategy (agenda item 10c).

6. Liabilities

- 6.1. In addition to debt of £4.75m detailed above, the Commissioner's balance sheet also shows long term liabilities totalling £1.229bn in respect of the Local Government and Police Officer Pension Scheme deficits. These will be met through a combination of payments from the revenue budget over a long

period and support from central Government. A sum of £1.4m has been set aside to cover risks from legal claims and insurance liabilities. The Commissioner is also at risk of having to pay for an unlawful discrimination claim arising from the transitional provisions in the Police pension Regulations 2015 but has not put aside any money because there has been no firm outcome to the case, no clarity of the scale of the claim and no certainty over who will bear the costs at this time.

- 6.2. The risk of liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 93 of the 2017/18 statement of accounts.

7. Revenue Budget Implications

- 7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential indicator of affordability – Proportion of financing costs to net revenue stream

Ratio of Financing Costs to Net Revenue Stream	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Investment income	0.090	0.140	0.170	0.140	0.120	0.050
MRP	0.420	0.430	0.490	0.500	0.530	0.550
Financing Costs	0.330	0.290	0.320	0.360	0.410	0.500
Net Revenue Stream	101.820	104.530	106.510	107.640	108.800	110.000
Ratio	0.32%	0.28%	0.30%	0.33%	0.38%	0.45%

The ratios of financing costs to the revenue budget above are considered sustainable.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFF period may extend for up to 50 years into the future. The Joint Chief Finance Officer is satisfied that the proposed capital programme is **prudent, affordable and sustainable**.

8. Knowledge and Skills

- 8.1. The Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Joint Chief Finance Officer is committed to the Governments apprenticeship levy scheme and currently has a number of key employees studying at Level 3/4 (AAT) and Level 7 (CIPFA).

- 8.2. Where employees do not have the knowledge and skills required, use is made of suitably qualified external advisers. The Commissioner currently employs Arlingclose Limited as treasury management advisers. The contract expires on the 31 March 2019 and a process to re-tender the contract is currently underway. This approach is more cost effective than employing such staff directly, and ensures that the Commissioner has access to knowledge and skills commensurate with his risk appetite.

CUMBRIVISION 25





Cumbria Office of the Police and Crime Commissioner

Title: Capital Programme 2019/20 & Beyond

Public Accountability Conference: 20 February 2019

Report of the Joint Chief Finance Officer

Originating Officers: Michelle Bellis, Deputy Chief Finance Officer
Lorraine Holme, Financial Services Manager

1. Purpose of the Report

1.1. The purpose of this report is to provide information on the proposed capital programme for 2019/20 and beyond, both in terms of capital expenditure projections and the financing available to fund such expenditure. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

2. Recommendations

- 2.1. The Commissioner is asked to approve the capital programme for 2019/20 and beyond as part of the overall budget process for 2019/20.
- 2.2. The Commissioner is asked to approve the status of capital projects as outlined in paragraph 3.1 and as detailed in appendices 2 to 5.

3. Capital Funding and Expenditure

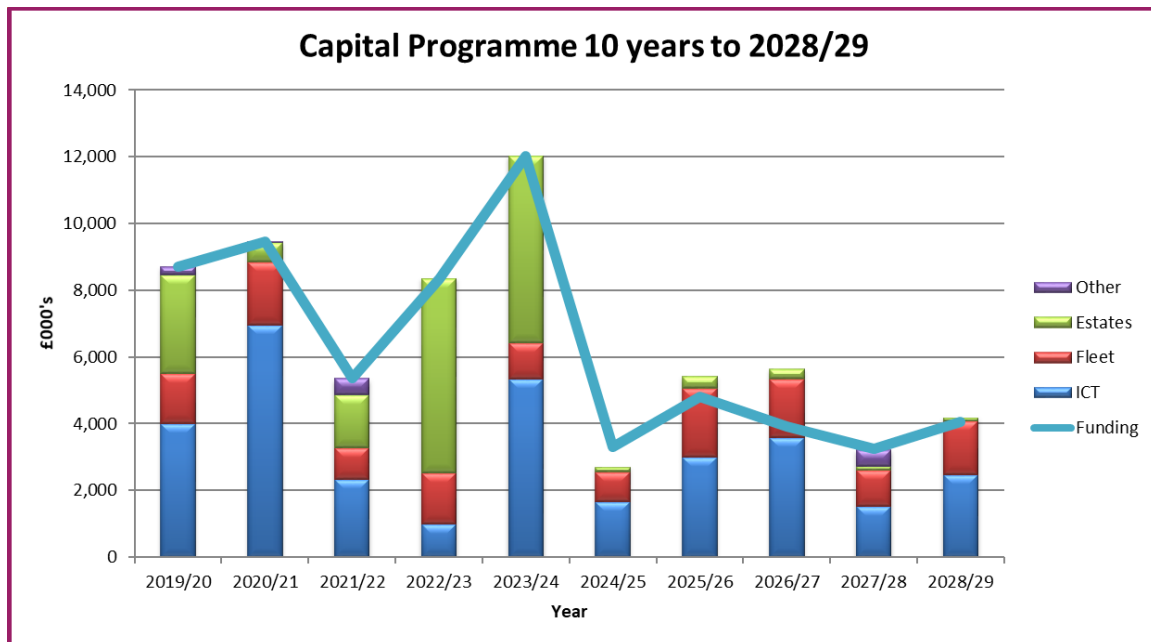
- 3.1. Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. To meet these requirements, all schemes within the 4-year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts, revenue contributions or planned borrowing.
- 3.2. There are three main recurring elements to the Commissioner’s capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these, there are currently a small number of “other schemes” which do not fall into the broad headings above and in particular includes the replacement of Taser and firearms equipment and replacement of the countywide CCTV system in the longer term.
- 3.3. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the four-year timeframe of the medium term financial forecast (2019/20 to 2022/2023).

Capital Expenditure	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £
ICT Schemes	2,200,850	4,003,363	6,961,009	2,333,071	983,946
Fleet Schemes	987,484	1,491,253	1,872,720	946,504	1,533,290
Estates Schemes	2,696,917	2,964,172	590,000	1,575,000	5,825,000
Other Schemes	166,520	250,000	42,770	500,000	0
Total Capital Expenditure	6,051,772	8,708,787	9,466,499	5,354,575	8,342,236
Capital Financing	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £
Capital Receipts	0	0	(1,961,604)	(163,737)	0
Contributions from Revenue	(1,468,024)	(1,771,608)	(3,392,173)	(3,244,140)	(3,242,952)
Capital Grants	(575,051)	(2,774,905)	(4,112,722)	(371,698)	0
Capital Reserves	(4,008,697)	(4,162,275)	0	(1,575,000)	(1,699,284)
Borrowing	0	0	0	0	(3,400,000)
Total Capital Financing	(6,051,772)	(8,708,787)	(9,466,499)	(5,354,575)	(8,342,236)
Capital Budget (Excess)/Shortfall	0	0	0	0	0

- 3.4. The profile of capital expenditure fluctuates annually. Across the current ten year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £1.8m on estate schemes and around £3.2m for replacement of ICT systems and equipment. ICT Expenditure reflects the Constabulary Strategy to invest in technology along with the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).
- 3.5. By the end of 2020/21 historic capital grant and general capital reserves will have been fully utilised. This means that the capital programme from 2021/22 becomes more reliant on revenue contributions to fund capital expenditure. Historically the annual contribution from the revenue budget was set at £1.2m. When setting the capital budgets for 2017/18 onwards (PCP Jan 2017) to ensure the stability of the capital programme the annual contributions were increased to £1.7m for 2018/19 and 2019/20. This will rise to above £3.0m per annum from 2020/21 as accumulated capital reserves and grant are fully extinguished. The financing presented in this report includes an additional increase to revenue contributions of £0.3m per annum from 2020/21. The provisional funding settlement figures announced on 13 December 2018 stated that the capital grant will be £372k, this is an increase of £8k on the previous financial year. It is assumed in this strategy that the capital grant will remain at this new level each year for the full 10 years.
- 3.6. A summary of the 10-year capital programme is provided for information at **Appendix 1**. The appendix shows that the capital programme is fully funded over the medium term four-year period to 2022/23. The appendix also shows that in years 6-10 of the programme there are some shortfalls and excesses that amount to a combined net shortfall of £1.8m. The estimates for 5-10 years are built on a number of assumptions and relatively unknown costs making it difficult to accurately predict project costs. Department heads have been tasked with finding savings and new ways of working to reduce the planned expenditure across all areas, with the aim of bringing the programme back into balance over the longer term.
- 3.7. As a result of the majority of capital expenditure being in relation to relatively short lived assets (e.g. ICT and fleet of up to 10 years' life), choices for financing the capital expenditure are fairly limited. Borrowing for short-lived assets is not a viable consideration due to the requirement to set aside funds from revenue for the repayment of debt over the life of the asset. Therefore, any future borrowing would have to be in relation to building projects with a life of 50 years. It can be seen in **Appendix 1** that during 2022/23 and 2023/24 it is estimated that the Commissioner will need to borrow £9m. This is linked to an indicative scheme to improve the Commissioner's estate in the west of the county. A

full options evaluation exercise and formal report will be required before any firm decisions are made in relation to this project.

The chart below illustrates capital expenditure and funding over the ten-year period:



3.8. ICT Schemes

The ICT Capital Programme primarily provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the strategic and operational needs of the Constabulary. However, over the period of the medium term financial forecast it also supports the Constabulary strategy to invest in technology to modernise the police service that is delivered to our communities. The Policing Vision 2025 issued by the APCC and NPCC seeks to transform the delivery of policing services and positions ICT as a key enabler of change. These plans for the future will be developed and managed locally within the work streams of Cumbria Vision 2025.

The ICT capital programme is supported by the ICT strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). The ESN scheme is included in the capital programme at the

estimated cost of £2.4m over the four years of the MTF and £5.9m over 10 years. Details of requirements are still emerging and it won't be clear as to the financial commitment needed locally until the Home Office release further information and devices are developed. There is slippage being reported by the national ESN programme and it is likely to be well into 2019 before we get any further clarity. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure needs to be upgraded if it is to be ready to support the connection to ESN.

The current command and control infrastructure in the control room is a large and complex network of ten legacy systems that provide a suite of applications to manage incidents. A scheme to replace these systems with a single fully integrated solution provided by Saab, known as SAFE, has commenced and is expected to be implemented in 2019/20.

If these two large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at approximately £2.2m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks, security and storage data centre capacity that ensures information can be moved securely between the different systems and device end points through which it is entered, processed and stored. It also covers local and mandated national police systems such as the main crime and intelligence system, command and control, forensics management, prisoner information systems, case and custody, including digital files for sharing with Criminal Justice partners and the police national data base that supports the sharing of information between forces.

The Constabulary also maintains a range of ICT systems to manage corporate functions including financial transactions, human resources, payroll, fleet management, estates management, ICT support systems and training and learning systems. Over recent years significant investment in mobile and digital ICT has been undertaken, the capital programme presented provides for the subsequent replacement of existing mobile devices as they reach end of life. Budgets for devices also provide for the costs of all the different technology used to access systems, including traditional desktop computers, laptops, tablets as well as the smartphones that use application technology (police apps), but importantly provide end user access to all systems and applications.

Appendix 2 provides a high-level analysis of the ICT capital programme.

3.9. Fleet Schemes

The constabulary fleet replacement programme consists of 297 vehicles. The capital programme provides for the replacement and kit out of these vehicles on a periodic basis at the end of their useful life. The fleet schemes are supported by the fleet strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20. The fleet strategy sets out the constabulary fleet requirements over the coming years. The main aim of the fleet strategy is to provide a cost effective fleet service to meet the needs of operational policing. The majority of vehicles are procured through a national framework agreement which ensures value for money is achieved.

During 2014/15 a large number of marked operational policing vehicles (e.g. ford focus estates, dogs vans and transit vans) were replaced with a single vehicle platform (SVP) which is based on a one size



fits all model, this SVP vehicle provides a single fit for purpose vehicle type to meet the majority of requirements. These vehicles are now approaching end of life and those with the highest mileage are becoming expensive to maintain. In the programme presented half of the single vehicle platform vehicles have been brought forward for replacement in 2019/20

Changes in permitted emissions levels have led to the temporary withdrawal of some car models whilst the manufacturers test and make modifications to their engines. This has led to delays in delivery of certain vehicles, but more importantly for this programme, it has led to an increase in prices for the new models as manufacturers seek to cover the costs of the additional work. Approximately £700k has been added to the fleet 10 year programme in response to these additional costs.

The 2019/20 capital programme is recommended for approval on a firm basis; the programme for future years is currently indicative and subject to change as the fleet programme develops to meet the changing needs of the organisation and the continual review process.

Appendix 3 provides a high-level analysis of the fleet capital programme.

3.10. Estates Schemes

The Commissioner's estate currently consists of 30 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, one police house, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20. The estates strategy aims to provide a link between the strategic objectives of the organisation and priorities for the estate. The strategy outlines the current and future requirements of the estate and documents the changes that are required to meet these.



The estates capital programme presented in February 2017 included the development of a new Eden Deployment base and replacement hostel accommodation on the HQ site at Penrith. Construction on this base is well under way and scheduled to be operational late in 2019.

The Eden Deployment base accounts for the vast majority of the estates programme for 2019/20 leaving only a small amount of cyclical replacement schemes e.g. roof repairs at Whitehaven and Kendal along with replacement of the UPS (Uninterrupted Power Supply) at the HQ site in Penrith.

Further into the medium term there is budget allocated to provide improved premises in the west of the county in response to major flooding incidents in recent years. Beyond this in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £205k per year for replacement schemes.

Appendix 4 provides a high-level analysis of the estates capital programme.

3.11. Other Schemes

Other schemes include cross cutting or operational programmes of work and include the replacement of Tasers and Glock Pistols and works to expand and replace the Countywide CCTV system.

Appendix 5 provides a high-level analysis of the 'other' schemes.

4. Supplementary information

Attachments

- Appendix 1 Capital Expenditure and Financing 10 years 2019/20 to 2028/29
- Appendix 2 ICT Schemes
- Appendix 3 Fleet Schemes
- Appendix 4 Estates Schemes
- Appendix 5 Other Schemes
- Appendix 6 Analysis of the change in Capital Programme between February 2018 and February 2019

Capital Expenditure and Financing 10 years 2019/20 to 2028/29

Capital Expenditure	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
ICT Schemes	2,200,850	4,003,363	6,961,009	2,333,071	983,946	5,330,061	1,660,777	2,987,820	3,581,661	1,521,463	2,458,772	31,821,942
Fleet Schemes	987,484	1,491,253	1,872,720	946,504	1,533,290	1,095,336	890,340	2,077,040	1,759,932	1,082,280	1,612,824	14,361,519
Estates Schemes	2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	105,000	17,579,172
Other Schemes	166,520	250,000	42,770	500,000	0	0	0	0	0	500,000	0	1,292,770
Total Capital Expenditure	6,051,772	8,708,787	9,466,499	5,354,575	8,342,236	12,025,397	2,701,117	5,414,860	5,636,593	3,228,743	4,176,596	65,055,402
Capital Financing	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
Capital Receipts	0	0	(1,961,604)	(163,737)	0	(1,714,557)	0	(795,001)	(254,853)	0	0	(4,889,752)
Contributions from Revenue	(1,468,024)	(1,771,608)	(3,392,173)	(3,244,140)	(3,242,952)	(3,241,729)	(3,305,369)	(3,272,211)	(3,301,104)	(3,236,457)	(3,304,659)	(31,312,401)
Capital Grants	(575,051)	(2,774,905)	(4,112,722)	(371,698)	0	(743,396)	0	(743,396)	(371,698)	0	(743,396)	(9,861,211)
Capital Reserves	(4,008,697)	(4,162,275)	0	(1,575,000)	(1,699,284)	(725,716)	0	0	0	0	0	(8,162,275)
Borrowing	0	0	0	0	(3,400,000)	(5,600,000)	0	0	0	0	0	(9,000,000)
Total Capital Financing	(6,051,772)	(8,708,787)	(9,466,499)	(5,354,575)	(8,342,236)	(12,025,397)	(3,305,369)	(4,810,608)	(3,927,655)	(3,236,457)	(4,048,055)	(63,225,639)
Capital Budget (Excess)/Shortfall	0	0	0	0	0	0	(604,252)	604,252	1,708,937	(7,714)	128,541	1,829,763

A more detailed analysis of capital expenditure is provided at Appendices 2-5.

ICT Schemes

ICT Summary	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	100,859	1,274,799	136,711	1,342,042	267,270	1,006,063	626,063	136,360	1,489,212	237,213	241,927	6,757,660
ICT Core Hardware Replacement (003/004x)	1,728,379	2,873,188	2,749,782	398,302	517,750	1,046,400	573,448	2,699,766	479,783	759,058	1,152,509	13,249,987
ICT Core Infrastructure Replacement (projects)	0	112,493	1,998,200	300,000	96,094	2,032,092	0	0	1,851,918	0	0	6,390,796
ICT Infrastructure Solution Replacement (Projects)	371,612	1,742,882	76,316	292,726	471,708	1,696,645	553,084	799,878	90,744	756,836	1,555,323	8,036,143
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	0	(368,876)	(451,139)	(91,818)	(648,184)	(329,996)	(231,644)	(490,987)	(2,612,645)
General Prudent Slippage (linked to workloads and staffing levels)	0	(2,000,000)	2,000,000	0	0	0	0	0	0	0	0	0
Total ICT Summary	2,200,850	4,003,363	6,961,009	2,333,071	983,946	5,330,061	1,660,777	2,987,820	3,581,661	1,521,463	2,458,772	31,821,942

Status - The ICT schemes within the capital programme above consolidate a significant number of complex and interrelated projects. The status of schemes is subject to agreement between the Commissioner and Constabulary. It is recommended that delegated approval is given to the Joint Chief Finance Officer to agree the status of schemes on the basis of the following principles:

Firm Schemes

- Schemes that are either routine cyclical upgrade of existing systems/hardware/software
- Schemes which have been approved by the Commissioner following submission of a business case/decision report

Delegated Schemes

- Schemes agreed in principle by decision report, where the detail of the financial profile/procurement/implementation plans are still to be developed
- Schemes within the Joint Chief Finance Officer's virement authorisation limits for which there is a clear business case
- Schemes above the Joint Chief Finance Officer's virement authorisation limits, but which are nationally mandated and supported by a business case.

Schemes not meeting the principles for firm or delegated schemes will be classed as indicative and will require a business case or decision report to the Commissioner before approval is given to commence with the scheme. The status of schemes applies to the funding for the four years 2019/20 to 2022/23, covering the period for which the capital programme is fully funded.

Fleet Schemes

Fleet Summary Proposed	Number of Vehicles in Category	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £		
Covert	14	74,200	107,498	0	83,824	27,560	81,000	94,600	22,400	91,884	30,160	88,500	627,426		
Neighbourhood Policing	92	261,630	681,400	979,200	0	723,980	421,200	0	739,200	1,124,040	792,280	460,200	5,921,500		
Specialist Vehicles	28	118,800	384,946	0	150,800	120,840	159,840	38,500	386,400	87,780	164,720	165,200	1,659,026		
Dog Vehicles	10	0	35,000	285,600	0	0	37,800	38,500	313,600	0	0	0	710,500		
Motor Cycles	8	15,300	0	0	0	0	16,200	0	141,120	0	0	17,700	175,020		
Pool Cars	29	46,716	13,000	53,040	135,200	15,900	128,736	40,040	20,160	38,418	60,320	180,304	685,118		
Protected personnel Carriers	9	122,400	0	0	187,200	254,400	0	0	0	136,800	0	0	578,400		
Roads Policing Vehicles	19	90,000	0	408,000	336,960	106,000	0	440,000	362,880	114,000	0	472,000	2,239,840		
Crime Command	39	62,100	106,000	0	31,200	0	210,600	135,300	58,240	103,740	34,800	0	679,880		
Crime Scene Investigators	10	0	0	0	21,320	284,610	0	0	0	0	0	0	305,930		
Garage	6	130,294	0	0	0	0	0	0	0	0	0	159,300	159,300		
Boat	0	0	0	0	0	0	0	0	0	0	0	0	0		
Chief Officer Pool	2	35,700	0	0	0	0	39,960	38,500	0	0	0	0	78,460		
Above Strength Vehicles	16	0	0	0	0	0	0	0	0	0	0	0	0		
Rechargable Vehicles	15	30,344	163,409	146,880	0	0	0	64,900	33,040	63,270	0	69,620	541,119		
													0		
Fleet Savings - Growth Limited to 50%													0		
Total Fleet Summary	297	0	987,484	0	1,491,253	1,872,720	946,504	1,533,290	1,095,336	890,340	2,077,040	1,759,932	1,082,280	1,612,824	14,361,519
Number of Vehicles Replaced Each Year		50	44	60	35	44	47	39	60	53	40	49	471		

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2019/20 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2020/21 to inform the status of the capital programme in future years.

Estates Schemes

Estates Schemes		Ref	Status	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
				2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
				£	£	£	£	£	£	£	£	£	£	£	£
Existing Schemes															
Roof Repairs - Various															
	Whitehaven Police Station	a	Firm	0	37,625	0	0	0	0	0	0	0	0	0	37,625
	Kendal Police Station	b	Firm	0	55,000	0	0	0	0	0	0	120,000	0	0	175,000
	Roof Repairs - HQ Dog section	c	Firm	0	0	70,000	0	0	0	0	0	0	0	0	70,000
Heating, Ventilation & Cooling Plant - Various															
	Police Headquarters			0	0	0	0	0	0	0	300,000	0	0	0	300,000
	Barrow HVAC			0	0	0	0	0	0	0	0	0	60,000	0	60,000
Other Existing Schemes															
	UPS Durranshill			0	0	0	0	0	0	150,000	0	0	0	0	150,000
	UPS HQ	d	Firm	0	100,000	0	0	0	0	0	0	0	0	30,000	130,000
	UPS Barrow			0	0	0	0	0	0	0	0	0	15,000	0	15,000
	North Resilience Flood Management - NPT/Hostel	e	Firm	2,300,000	2,771,547	0	0	0	0	0	0	0	0	0	2,771,547
	Workington - Land Purchase	f	Firm	287,225	0	0	0	0	0	0	0	0	0	0	0
	Garage Provision	g	Indicitive	0	0	500,000	0	0	0	0	0	0	0	0	500,000
	Durranshill - Replacement CCTV system and cell call	h	Firm	50,000	0	0	0	0	0	0	50,000	0	0	0	50,000
	Kendal CCTV and Cell Call			0	0	0	0	0	0	0	0	0	50,000	0	50,000
	West Resilience Flood Management	i	Indicitive	0	0	0	1,575,000	5,825,000	5,600,000	0	0	0	0	0	13,000,000
	Roof Repairs & Glazing - Durranshill			0	0	0	0	0	0	0	0	75,000	0	0	75,000
	HQ Static inverter			0	0	0	0	0	0	0	0	50,000	0	0	50,000
	HQ firearms flood defence to ventilation plant	j	Firm	9,692	0	0	0	0	0	0	0	0	0	0	0
	HQ window conservation			0	0	0	0	0	0	0	0	50,000	0	0	50,000
	Durranshill heat and vent plant	k	Firm	50,000	0	0	0	0	0	0	0	0	0	0	0
	Gas suppression cylinder replacements	l	Firm	0	0	20,000	0	0	0	0	0	0	0	0	20,000
Sub Total Existing Estates Schemes				2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	30,000	17,504,172
New Estates Schemes 2019/20															
	Barrow CCTV camera replacement			0	0	0	0	0	0	0	0	0	0	35,000	35,000
	Kendal M&E plant			0	0	0	0	0	0	0	0	0	0	20,000	20,000
	Carlisle M&E plant (area 2)			0	0	0	0	0	0	0	0	0	0	20,000	20,000
Sub Total New Estates Schemes				0	0	0	0	0	0	0	0	0	0	75,000	75,000
Total Estates Schemes				2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	105,000	17,579,172

Estates Scheme Status Recommendations*

1. It is recommended that schemes (a), (b), (c), (d), (e), (f), (h), (j), (k) and (l) be approved as firm, these being routine cyclical replacement, upgrade of existing facilities or continuation of previously agreed schemes.
2. It is recommended that schemes (g) and (i) be agreed in principle as indicative schemes and subject to a business case being approved by the Commissioner.

*scheme status applies to the financial profile between 2019/20 and 2022/23 only unless otherwise stated.

Other Schemes

Other Schemes 2019/20 onwards	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £
CCTV	23,890	0	0	500,000	0	0	0	0	0	500,000	0	1,000,000
ANPR	49,855	0	0	0	0	0	0	0	0	0	0	0
Accelerated Recruitment	46,675	0	0	0	0	0	0	0	0	0	0	0
Portable Ballistic Protective Equipment	46,100	0	0	0	0	0	0	0	0	0	0	0
X2 Taser migration	0	250,000	0	0	0	0	0	0	0	0	0	250,000
Glock Pistol Replacement	0	0	42,770	0	0	0	0	0	0	0	0	42,770
Total Other Schemes	166,520	250,000	42,770	500,000	0	0	0	0	0	500,000	0	1,292,770

Other Scheme Status Recommendations*

- It is recommended that the remainder of the original CCTV scheme remains approved as firm, but that the wholesale replacement of the system in 2021/22 be subject to a business case.
- It is recommended that the Glock Pistol Replacement and Taser replacement schemes be approved on an indicative basis subject to a business case from the Territorial Policing Commander being presented to the Commissioner for approval.

*scheme status applies to the financial profile between 2019/20 and 2022/23 only unless otherwise stated.

Analysis of the change in Capital Programme between February 2018 and the February 2019 position.

	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	4 Year Total (£) TOTAL £
Capital Strategy - February 2018	7,441,788	7,470,741	9,326,423	9,177,825	33,416,777
Capital Strategy - Proposed (January 2019)	8,708,787	9,466,499	5,354,575	8,342,236	31,872,097
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Difference by Type					
- ICT Schemes	(450,813)	3,650,226	327,563	(1,106,348)	2,420,627
- Fleet Schemes	786,237	(368,238)	(49,412)	45,760	414,347
- Estates Schemes	1,274,576	(1,275,000)	(4,250,000)	225,000	(4,025,425)
- Other Schemes	(343,000)	(11,230)	0	0	(354,230)
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Explanation of the Difference by Type					
- ICT Schemes					
Change in telephony profile to 5 years	30,000	0	0	(33,000)	(3,000)
Change in mobile device profile	0	0	(106,500)	13,520	(92,980)
Change in Smartphone profile	209,950	(18,888)	(19,307)	(19,733)	152,022
Slippage 17/18 to 18/19 and 18/19 to 19/20	1,174,998	2,050,000	(31,900)	(30,800)	3,162,298
Transfer to revenue	(110,000)	0	0	0	(110,000)
Change in National ESN Project	(1,885,707)	1,648,200	300,000	(1,398,492)	(1,335,999)
Storage requirement added in	120,000	0	0	387,679	507,679
Case and Custody future development removed	(12,538)	(52,020)	(53,060)	(54,122)	(171,740)
BWV new scheme replacement	22,484	22,934	238,330	28,600	312,348
- Fleet Schemes					
Peugeot Expert Price Increase	0	128,000	0	0	128,000
Peugeot Expert Price Increase and B/Fwd	750,000	(650,000)	0	0	100,000
Effects of a previous years decision built in	33,690	(13,000)	0	48,800	69,490
18/19 Slipped to 19/20 and future	82,498	0	0	50,000	132,498
Replacement extended	(373,694)	400,000	20,000	(79,000)	(32,694)
Write Off	(15,700)	(43,000)	(50,000)	50,000	(58,700)
Price Increase	177,150	46,700	42,500	24,500	290,850
Price Decrease	(4,000)	0	(25,100)	(100)	(29,200)
Replacement removed	0	(150,000)	0	0	(150,000)
Added in - recharged	0	0	0	0	0
2028/29 added in	0	0	0	0	0
Inflation	(27,116)	(86,938)	(36,812)	(48,440)	(199,306)
Camera Scheme (recharged)	163,409				163,409
- Estates Schemes					
Change in Eden NPT Scheme	1,574,576	0	0	0	1,574,576
Re-profile of the West Scheme	(300,000)	(1,275,000)	(4,250,000)	225,000	(5,600,000)
- Other Schemes					
Business Analytics - removed from capital	(343,000)	(54,000)	0	0	(397,000)
Glock Replacement added in	0	42,770	0	0	42,770
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Difference left to explain	0	0	0	0	0



**Treasury Management, Investment, Borrowing
and MRP strategies 2019/20
(Including Prudential Indicators)**

Office of the Police and Crime Commissioner Report

Title: Treasury Management, Investment, Borrowing and MRP strategies 2019/20 & Prudential Indicators

Report of the Joint Chief Finance Officer

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

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) on an annual basis.

These codes were originally issued in 2002, revised in 2009, 2011 and again in 2017. The TMSS presented here complies to the 2017 codes and accompanying guidance notes. The TMSS also incorporates the Investment Strategy which is a requirement of the Ministry of Housing, Communities and Local Government's Investment (MHCLG) Investment Guidance 2018.

This report proposes a strategy for the financial year 2019/20.

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.’

2. Recommendations

2.1. The Commissioner is asked to:

- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2019/20.
- Approve the Prudential Indicators Specific to Treasury Management for 2019/20 as described in paragraph 5.
- Approve the Minimum Revenue Provision Policy Statement for 2019/20 as set out in paragraph 6.
- Approve the Investment Strategy for 2019/20 as set out in paragraph 4.6
- 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 Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

2.2. The Joint Audit 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 Ministry of Housing, Communities and Local Government’s Investment Guidance 2018. Together, these cover the financing and investment strategy for the forthcoming financial year.

- 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.
- 3.3. The current contract to provide specialist treasury advice expires on 31/03/2019 and a process to re-tender the contract is currently underway.

4. Treasury Management Strategy 2019/20

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 “**Security, Liquidity, Yield** 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**.

4.1.4. 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 2019/20 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 CIPFA Code of Practice on Treasury Management published in 2011 and recently updated in 2017. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) and the 2018 Ministry of Housing, Communities and Local Government’s Investment Guidance, 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 current 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. Treasury Management Cash Flow Forecast

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 2019 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	15.185	9.816	7.376	4.563
Interest Receipts	0.120	0.165	0.140	0.115

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 4.4.3 below.

4.3.4. The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £17.5m at the start of the 2019/20 financial year. This includes £4.7m 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 programme paper elsewhere on this agenda (see item 10b) indicates that the Commissioner will need to borrow to deliver the agreed capital programme, specifically to provide a fit for purpose territorial policing HQ in the west of the county. This investment is still indicative and would be subject to a full business case decision process. 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. This has the effect of reducing the cash balances available for investment. Advice will continue to be sought from our treasury advisors as to the most opportune time and interest rate to undertake external borrowing.

4.3.5. The estimate for interest receipts in 2019/20 is £165k (latest forecast for 2018/19 is £135k). The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.75%.

4.4. Treasury Management Interest Rate Forecast

4.4.1. The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy. The on-going economic and political uncertainty relating to Brexit has prompted Arlingclose to both change their central forecast and widen the possible range of interest rate paths to incorporate the different Brexit outcomes. These range from an immediate no-deal Brexit to remaining in the European union.

4.4.2. Due to the short time for a Brexit withdrawal deal to be agreed and the possibility of an extended period of uncertainty the central forecast is the bank base rate to remain unchanged until December 2019 before rising twice thereafter

4.4.3. 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 January 2019. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Base Rate Estimates	2018/19	2019/20	2020/21	2021/22	2022/23
Quarter 1	0.50%	0.75%	1.00%	1.25%	1.25%
Quarter 2	0.75%	0.75%	1.25%	1.25%	1.25%
Quarter 3	0.75%	0.75%	1.25%	1.25%	1.25%
Quarter 4	0.75%	1.00%	1.25%	1.25%	1.25%

4.5. Borrowing 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 compliance with this requirement the Commissioner does not currently intend to borrow in advance of spending need.

The table below shows the Commissioner's projected capital financing requirement for 2019/20 and beyond.

Capital Financing	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Balance B/fwd	18.40	17.98	17.55	17.06	16.56	16.03
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	0.00	0.00	3.40
Less MRP for Debt Redemption	-0.42	-0.43	-0.49	-0.50	-0.53	-0.55
Balance C/Fwd	17.98	17.55	17.06	16.56	16.03	18.88

The above table shows only capital expenditure that is required to be financed from borrowing. The full capital programme and associated financing is reported in summary within the capital programme and capital programme elsewhere on the agenda (see item 10b).

The Commissioner is not expected to have any external borrowing at the start of 2019/20. Given that the CFR is forecast to be £17.5m this effectively means that the Commissioner will be funding over £12.8m of capital spend from internal resources (CFR £17.5m less £4.7m in relation to PFI).

Currently, there is a significant differential between investment rates at 1.00% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 3.00+% 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 transactions. 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 (currently 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 be used 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. Short term borrowing would probably be from another Local Authority.

4.6. Investment Strategy

4.6.1. Local Authorities (which include the Commissioner) invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

The Local Government Act 2003, Section 15(1)(a) requires the Commissioner to approve an investment strategy which must also meets the requirement in the statutory investment guidance issued by the Ministry of Housing, Communities and Local Government in January 2018. The Commissioner does not currently have, and does not intend to invest in, service investments or commercial investments so the detail below focuses on a Treasury Management Investment Strategy.

4.6.2. The CIPFA Code requires funds to be invested prudently, and to have regard for:

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed

The generation of **yield** is distinct from these prudential objectives. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The objective when investing surpluses is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim would be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

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

In the past the treasury management 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 balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Commissioner's investment balance has ranged between £9.2m and £35.1m. The larger sum was due to the receipt in July 2018 of £20.4m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2019/20 are forecast to slowly reduce as expenditure on large capital schemes continues. It is anticipated that, at the peak, when the pensions grant is received in July, balances for investment could approach £32m.

Credit Rating - Investment decisions are made by reference to the lowest published long-term credit rating from credit agencies such as, 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,(currently Arlingclose Ltd), select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Credit default swap prices
- 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 2019/20 remains the same. The decision to enter into a new class of investment is delegated to the Joint Chief Finance Officer. The strategy allows for investments in pooled funds such as money market funds or property funds. Following Brexit information and advice will be sought regarding the use of property funds to further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. A full explanation of each class of asset is provided in **Appendix A** together with a schedule of the limits that will be applied.

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 his advisors 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 in 2017/18 that the Joint 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 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.

In the absence of any explicit legal power to do so, The Commissioner has **no** plans to use derivatives during 2019/20. 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 MHCLG's defines as a long term investment.

The Financial Services team uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet his financial commitments. For the Commissioner, the total of investments over one year 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 one year. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2019/20 amounts to £165k (£135k 2018/19) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit 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). As outlined in section 1.1 above, the Treasury Management Code and Prudential Code were updated and additional guidance notes have now been received. The TMP's have been updated. The guidance from CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- 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
- Money laundering
- Training & Qualifications
- 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 Joint 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. Treasury Management Prudential Indicators

5.1. 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.

5.2. The treasury management Indicators are not targets to be aimed at, but are instead limits within which the treasury management policies of the Commissioner are deemed prudent. These cover three aspects:

5.2.1. **Maturity Structure of Borrowing** - It is recommended that upper and lower limits for the maturity structure of borrowings are calculated as follows:

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

The PCC currently has no external debt. This table will be updated once actual borrowing is undertaken.

This indicator is primarily applicable to organisations, 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.

5.2.2. **Principal sums invested for periods longer than a year** – The purpose of this indicator is to contain the Commissioner’s exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or losses by seeking early repayment of its investments.

Price Risk Indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond one year	£3m	£2m	£1m

5.2.3. **Exposure to interest rate changes** - The 2017 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Arlingclose are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

5.3. Setting, Revising, Monitoring and Reporting

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 Joint Chief Finance 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 at his Public Accountability Conference.

6. Annual MRP Statement for 2019/20

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)**. The Local Government Act 2003 requires the Authority to "have regard" to The Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision most recently issued in 2018. 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 Ministry of Housing, Communities and Local Government's Guidance recommends that before the start of the financial year, The Commissioner approves a statement of MRP policy for the forthcoming financial year. This is now by agreement encompassed within the TMSS. 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.

- 6.3. It is proposed that The Commissioner’s MRP policy for 2019/20 is unchanged from that of 2018/19 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.
- 6.4. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 accounting requirements 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.
- 6.5. There have been some additional voluntary contributions of MRP made in previous years that are available to reduce the revenue charges in later years. No such overpayments or withdrawals are planned for 2019/20.

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 Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint Audit 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 MHCLG 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.

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 (currently Arlingclose Ltd) there are no amendments to the criteria used in determining approved investment counterparties for 2019/20 compared to those in operation for 2018/19.

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. These principles apply to the 2019/20 strategy. 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 and at the time when individual investment decisions are made. In the event that this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit Committee will be advised through the quarterly activities report.

- 2.3. The approved investment counterparties for the 2019/20 investment strategy are summarised 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 is provided in **Schedule B** (page 20).

3. Counterparty Groupings / Limits

- 3.1. The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in **Schedule A** (page 19). The limits are based on a percentage of the potential maximum sums available for investment during the year of up to £40m. The counterparty limits for 2019/20 are the same as the limits for 2018/19. Pooled funds are in essence the same as AAA money market funds but they require 3 days notice for the return of our funds. This slight reduction in cashflow is rewarded by a slightly increased interest rate. Arlingclose suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

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).

Schedule A – Counterparty Groupings and Associated Limits

Investment Limits						
Credit Rating	Maximum	1	2	3	4	5
		Banks	Banks	Government	Registered	Pooled
		Unsecured	Secured		Providers	Funds
<u>Category Limit 2019/20</u>	Amount	£20m	£20m	Unlimited	£10m	£20m
	Duration					
<u>Individual Institution/Group Limits</u>						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (Pooled funds are generally not rated but the diversification of funds equate to AAA credit rating)
	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 2019/20 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined in paragraph 2.2 above, counterparty credit rating is not the only factor taken into consideration at the time of placing investments.

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

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. See below for arrangements relating to operational bank accounts.

Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised 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 higher 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 generally a lower risk of insolvency, although they are not zero risk. 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 and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Category 5 - Pooled Funds: Shares or units 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility 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 Authority 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 Authority'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	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to DDD.</p> <ul style="list-style-type: none"> • 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range Aaa, Aa, A, etc, down to C.</p> <p>Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa to Caa.</p> <p>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.</p> <ul style="list-style-type: none"> • Aaa Obligations rated Aaa are judged to be of the highest quality, with the lowest level of 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to D.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</p>

Schedule C – Description of Credit Ratings – Short Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Short Term Rating	<p>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.</p> <ul style="list-style-type: none"> F1 Highest credit quality Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote an exceptionally strong credit feature. <p>The Commissioner will confine investments to those institutions with a minimum rating of F1.</p>	<p>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).</p> <ul style="list-style-type: none"> P1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations. <p>The Commissioner will confine investments to those institutions with a minimum rating of P1.</p>	<p>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.</p> <ul style="list-style-type: none"> 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. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</p>

Schedule C – Description of Credit Ratings – Support Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Support Rating (Fitch)	<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>Not applicable</p>	<p>Not applicable</p>