Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 001/ 2020)

TITLE: Approval of the Capital Strategy, Capital Programme and Treasury Management Strategy 2020/21

Executive Summary:

The purpose of this report is to provide information on the proposed capital strategy for 2020/21. 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 2020/21 and beyond as part of the overall budget process for 2020/21.
- Approve the status of capital projects as detailed in appendices 2 to 5.

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

- Approve the Borrowing Strategy for 2020/21 as set out on pages 8-9
- Approve the Investment Strategy for 2020/21 as set out on pages 10-13
- Approve the Treasury Management Prudential Indicators as set out on pages 15-16
- Approve the other Prudential Indicators set out on pages 17 to 21
- Approve the Minimum Revenue Provision Policy Statement for 2020/21 as set out on page 22
- 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: 19/02/2020**

Peter McCall

Cumbria Office of the Police and Crime Commissioner

Title: Capital Programme 2020/21 & Beyond

Public Accountability Conference: 19 February 2020

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 2020/21 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 2020/21 and beyond as part of the overall budget process for 2020/21.

2.2. The Commissioner is asked to approve the status of capital projects 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.

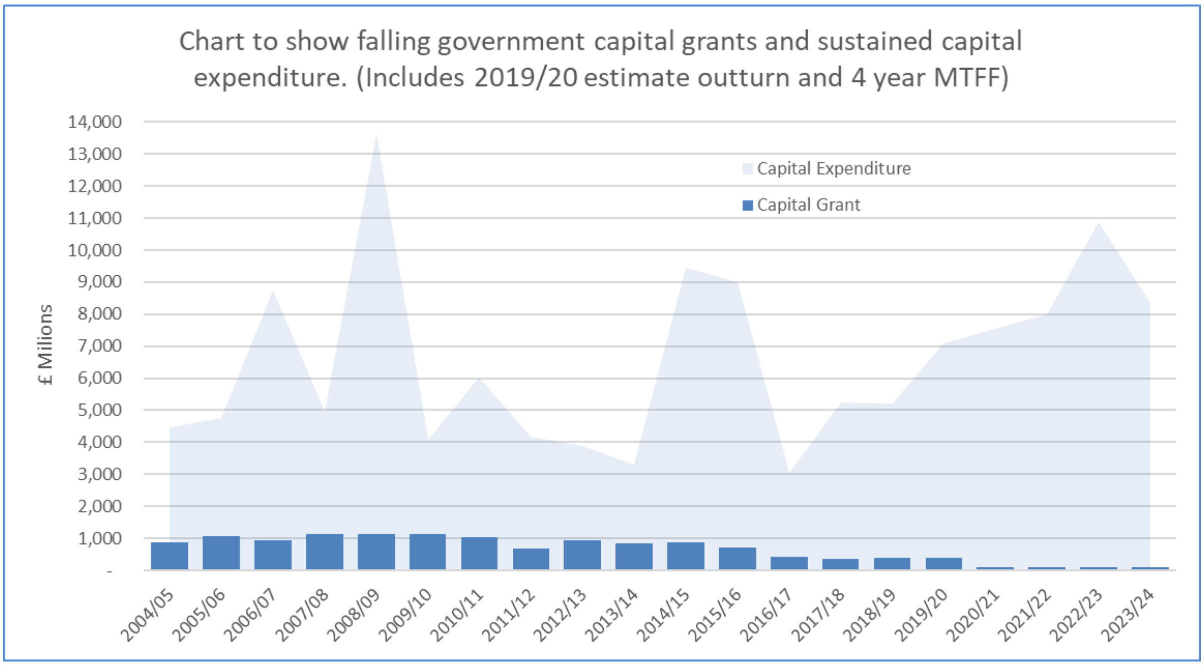
3.2. There are three main recurring elements to the Commissioner's capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these there are currently a small number of "other schemes" which do not fall into the broad headings above and in particular includes the replacement 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 (2020/21 to 2023/2024).

Capital Expenditure	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £
ICT Schemes	1,933,562	4,268,364	4,425,573	3,530,115	1,786,977
Fleet Schemes	934,404	2,846,820	776,021	1,469,690	971,136
Estates Schemes	3,324,393	282,625	2,075,000	5,885,000	5,600,000
Other Schemes	907,081	155,167	720,000	0	0
Total Capital Expenditure	**7,099,440**	**7,552,976**	**7,996,594**	**10,884,805**	**8,358,113**
Capital Receipts	0	0	(1,287,881)	(1,541,164)	0
Contributions from Revenue	(1,114,900)	(3,491,179)	(3,421,021)	(3,418,641)	(3,415,221)
Capital Grants	(941,440)	(4,061,797)	(1,712,692)	(100,000)	0
Capital Reserves	(1,758,449)	0	(1,575,000)	(2,425,000)	0
Borrowing	(3,284,652)	0	0	(3,400,000)	(5,600,000)
Total Capital Financing	**(7,099,440)**	**(7,552,976)**	**(7,996,594)**	**(10,884,805)**	**(9,015,221)**
(Excess)/Shortfall	**0**	**0**	**0**	**0**	**(657,108)**

3.4. The profile of capital expenditure fluctuates annually. Across the current ten year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles, £1.5m on estate schemes and around £3.0m 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. In relation to the financing of the capital programme, the Government's grant settlement for 2020/21 included additional funding for the recruitment of 20,000 additional Police Officers, known as Operation Uplift. The headline figures included an additional £5.9m of revenue funding, whilst capital grants were reduced by £272k (73%), from £372k to £100k per annum. The Policing Minister's statement, which accompanied the settlement, made it clear that the additional revenue funding included a non-recurring element to cover the capital infrastructure costs associated with the recruitment of the additional officers. The money was deliberately directed to the revenue budget to provide forces with maximum flexibility to spend their budgets to support Operation Uplift. The resulting downward revision of capital grant funding to £100k p.a. has been factored into the capital funding assumptions going forward. The graph below illustrates the falling capital grant against the backdrop of capital expenditure:



3.6. The capital costs associated with operation uplift for Cumbria have still to be fully determined. The temporary repurposing of the Eden Deployment Centre to provide training facilities has, to some degree, mitigated the additional accommodation costs, which would have otherwise been incurred to train the new recruits. However, it is still likely that additional estates and vehicle costs will emerge in relation to Operation Uplift and will need to be included into future capital programmes.

3.7. 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 2023/24. The appendix also shows that in years 5-10 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, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that project costs in the later years of the capital programme become increasingly indicative and should be treated with caution.

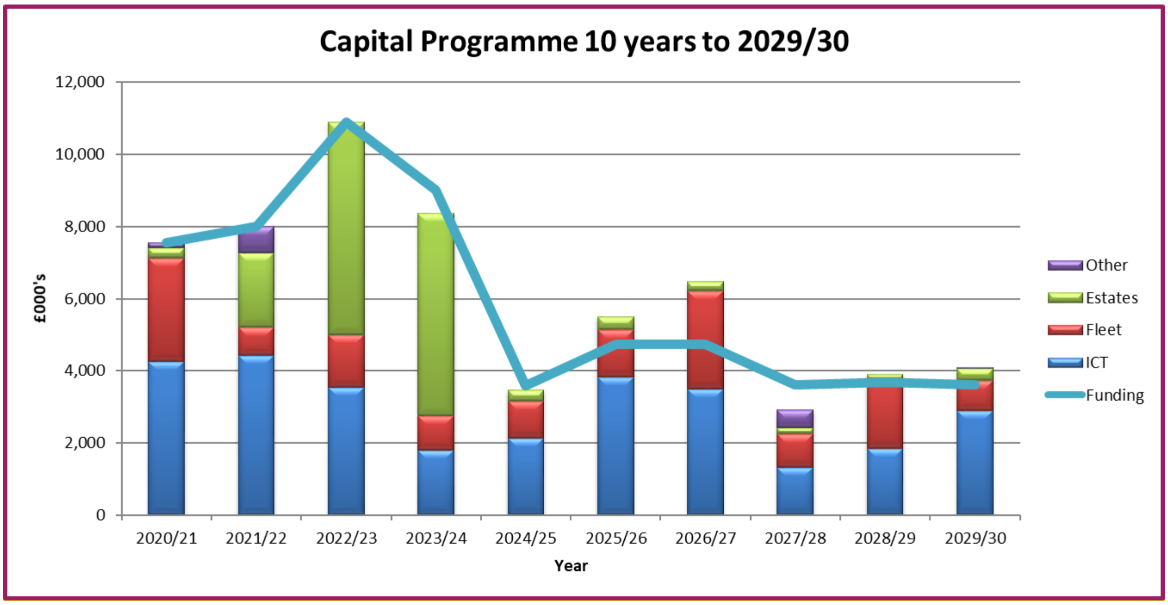
3.8. By the end of 2021/22 historic capital grant and general capital reserves will have been fully utilised. This, in combination with the reduced level of capital grant, means that the capital programme becomes more reliant on revenue contributions to support capital expenditure. Historically, the annual contribution from the revenue budget was set at £1.2m. The following increases have been approved since then

- PCP Jan 2017 - Increase of £0.5m to £1.7m for 2018/19 and 2019/20
- PCP Jan 2017 – Increase of £1.3m to £3.0m for 2020/21 onwards - as accumulated capital reserves and grant are fully extinguished.
- PCP Jan 2019 – Increase £0.3m to £3.3m from 2020/21.
- PCP Feb 2020 – Increase £0.3m to £3.5m from 2020/21 (to replace lost grant –see above)

This means that revenue support for the capital programme has had to increase by over £2.3m in 2020/21 compared to the previous year and will now be required to annually remain at or around this higher level for the foreseeable future. This puts a significant additional strain on the revenue budget.

3.9. 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 the revenue budget 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:



3.10. **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 March 2020.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance the programme 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 £4.2m over the four years of the MTFF and £8.6m 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 the new financial year before we get any further clarity. These prudent commitments in the strategy place the Commissioner in a good position for any announcements. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure has been upgraded so it is ready to support the connection to ESN.

The largest replacement in 2020/21 is for the converged infrastructure – this is a consolidation of server infrastructure for running virtual machines in our data centre – also referred to as a private cloud. Future options for this scheme are currently being considered.

If these two large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at an average of £1.9m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks and security and 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 strategy presented includes 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.

3.11. **Fleet Schemes**

The constabulary fleet replacement programme consists of around 300 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 March 2020. 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 provided a single fit for purpose vehicle type to meet the majority of requirements. These vehicles have now reached the end of life and those with the highest mileage are becoming expensive to maintain. The territorial policing teams, in conjunction with driver training and Fleet, have been testing a number of possible replacement vehicles. The conclusion has now been reached that there is no longer a single vehicle that will meet the needs of these teams and that a mix of cars and cell vans will be the most appropriate option. Taking into account the whole life costs for the vehicle, after sales support and warranty lengths the preferred vehicle (on paper) is now undergoing, further testing, including fully loaded with operational equipment and initial phase pursuit testing. In the programme presented half of the single vehicle platform vehicles were initially to be replaced in 2019/20 but these have all been moved into 2020/21, whilst the correct mix of vehicles is determined.

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

3.12. **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 March 2020. 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. In response to the Government announcement of investment in additional Police Officers (Operation Uplift) the property will be temporarily utilised as a Learning and Development Centre to support the increased level of police officer recruitment.

The Learning and Development Centre accounted for the vast majority of the estates programme for 2019/20 which has left the cyclical replacement schemes e.g. roof repairs at Whitehaven and Kendal along with replacement of the Uninterrupted Power Supply (UPS) at the HQ site in Penrith for 2020/21.

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, options for which will be developed over 2020/21. Beyond this in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £240k per year for replacement schemes.

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

3.13. **Other Schemes**

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

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

4. Capital Receipts

4.1. **Appendix 7** provides details of property disposals and the proceeds of those sales over recent years. The table shows total receipts of £4,769m. At 31 March 2019 there was a balance of capital receipts unapplied of £2.096m, this means that £2.673m have already been applied to the capital programme. The majority of the sales resulted from an estates rationalisation programme and those sale proceeds were used to finance the South Area Headquarters in Barrow.

4.2. The remainder of the capital receipts will be applied to the capital programme from 2021/22 as reserves and grants are extinguished.

5. Supplementary information

<u>Attachments</u>

Appendix 1	Capital Expenditure and Financing 10 years 2020/21 to 2029/30
Appendix 2	ICT Schemes
Appendix 3	Fleet Schemes
Appendix 4	Estates Schemes
Appendix 5	Other Schemes
Appendix 6	Analysis of the change in Capital Strategy between February 2019 and February 2020
Appendix 7	Capital Receipts Breakdown 2009/10 to 2019/20

Appendix 1

Capital Expenditure and Financing 10 years 2020/21 to 2029/30

Capital Expenditure	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
ICT Schemes	**1,933,562**	**4,268,364**	**4,425,573**	**3,530,115**	1,786,977	2,132,347	3,837,124	3,488,368	1,323,505	1,838,428	2,897,060	29,527,861
Fleet Schemes	**934,404**	**2,846,820**	**776,021**	**1,469,690**	971,136	1,035,540	1,304,240	2,732,352	924,520	1,906,644	839,570	14,806,533
Estates Schemes	**3,324,393**	**282,625**	**2,075,000**	**5,885,000**	5,600,000	310,000	350,000	245,000	170,000	155,000	320,000	15,392,625
Other Schemes	**907,081**	**155,167**	**720,000**	**0**	0	0	0	0	500,000	0	43,000	1,418,167
Total Capital Expenditure	**7,099,440**	**7,552,976**	**7,996,594**	**10,884,805**	**8,358,113**	**3,477,887**	**5,491,364**	**6,465,720**	**2,918,025**	**3,900,072**	**4,099,630**	**61,145,186**
Capital Receipts	**0**	**0**	**(1,287,881)**	**(1,541,164)**	0	0	(886,761)	(1,066,363)	0	0	0	(4,782,169)
Contributions from Revenue	**(1,114,900)**	**(3,491,179)**	**(3,421,021)**	**(3,418,641)**	(3,415,221)	(3,579,136)	(3,546,247)	(3,575,421)	(3,511,069)	(3,579,580)	(3,508,824)	(35,046,339)
Capital Grants	**(941,440)**	**(4,061,797)**	**(1,712,692)**	**(100,000)**	0	0	(300,000)	(100,000)	(100,000)	(100,000)	(100,000)	(6,574,488)
Capital Reserves	**(1,758,449)**	**0**	**(1,575,000)**	**(2,425,000)**	0	0	0	0	0	0	0	(4,000,000)
Borrowing	**(3,284,652)**	**0**	**0**	**(3,400,000)**	(5,600,000)	0	0	0	0	0	0	(9,000,000)
Total Capital Financing	**(7,099,440)**	**(7,552,976)**	**(7,996,594)**	**(10,884,805)**	**(9,015,221)**	**(3,579,136)**	**(4,733,007)**	**(4,741,784)**	**(3,611,069)**	**(3,679,580)**	**(3,608,824)**	**(59,402,997)**
(Excess)/Shortfall	**0**	**0**	**0**	**0**	**(657,108)**	**(101,249)**	**758,357**	**1,723,935**	**(693,044)**	**220,492**	**490,806**	**1,742,189**

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

Appendix 2

ICT Schemes

ICT Summary	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	982,280	590,177	1,635,627	339,781	238,116	928,442	214,419	1,483,635	532,515	279,389	738,880	6,980,982
ICT Core Hardware Replacement (003/004x)	1,619,191	3,352,887	498,302	837,000	1,168,050	573,448	2,699,766	440,093	798,748	1,245,899	631,750	12,245,943
ICT Core Infrastructure Replacement (projects)	0	1,047,015	186,809	2,615,383	382,378	99,325	1,210,336	1,416,831	106,397	308,750	1,250,695	8,623,919
ICT Infrastructure Solution Replacement (Projects)	202,395	407,982	104,835	106,827	449,573	622,950	360,788	477,804	117,488	495,376	786,981	3,930,604
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	(368,876)	(451,139)	(91,818)	(648,184)	(329,996)	(231,644)	(490,987)	(511,246)	(3,123,890)
General Prudent Slippage (linked to workloads and staffing levels)	(870,303)	(1,129,697)	2,000,000	0	0	0	0	0	0	0	0	870,303
Total ICT Summary	***1,933,562***	***4,268,364***	***4,425,573***	***3,530,115***	***1,786,977***	***2,132,347***	***3,837,124***	***3,488,368***	***1,323,505***	***1,838,428***	***2,897,060***	***29,527,861***

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 2020/21 to 2023/24, covering the period for which the capital programme is fully funded.

Appendix 3

Fleet Schemes

Fleet Summary Proposed	*Number of Vehicles in Category*	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
Covert	**14**	135,649	20,400	82,861	27,560	81,000	94,600	22,400	91,884	30,160	88,500	70,800	610,165
Neighbourhood Policing	**92**	81,400	1,683,000	0	660,380	388,800	0	168,000	1,808,040	722,680	424,800	0	5,855,700
Specialist Vehicles	**28**	206,946	222,360	109,200	120,840	119,880	123,200	285,600	190,380	121,800	256,060	218,300	1,767,620
Dog Vehicles	**10**	70,000	214,200	72,800	0	0	115,500	196,000	79,800	0	41,300	82,600	802,200
Motor Cycles	**8**	0	0	0	0	16,200	0	141,120	0	0	17,700	0	175,020
Pool Cars	**29**	93,000	13,260	121,680	15,900	128,736	40,040	20,160	129,618	15,080	164,964	17,700	667,138
Protected personnel Carriers	**9**	0	183,600	0	254,400	0	0	0	136,800	0	212,400	0	787,200
Roads Policing Vehicles	**19**	0	408,000	336,960	106,000	0	440,000	362,880	114,000	0	472,000	382,320	2,622,160
Crime Command	**39**	104,000	15,300	31,200	0	196,560	118,800	75,040	118,560	34,800	0	0	590,260
Crime Scene Investigators	**10**	0	0	21,320	284,610	0	0	0	0	0	0	24,190	330,120
Garage	**6**	0	0	0	0	0	0	0	0	0	159,300	0	159,300
Chief Officer Pool	**2**	0	0	0	0	39,960	38,500	0	0	0	0	43,660	122,120
Above Strength Vehicles	**15**	0	0	0	0	0	0	0	0	0	0	0	0
Rechargable Vehicles	**15**	243,409	86,700	0	0	0	64,900	33,040	63,270	0	69,620	0	317,530
Total Fleet Summary	***296***	***934,404***	***2,846,820***	***776,021***	***1,469,690***	***971,136***	***1,035,540***	***1,304,240***	***2,732,352***	***924,520***	***1,906,644***	***839,570***	***14,806,533***
Number of Vehicles Replaced Each Year		***37***	***85***	***32***	***41***	***43***	***38***	***40***	***84***	***32***	***55***	***20***	***470***

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2020/21 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.

Appendix 4

Estates Schemes

Estates Schemes	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
Existing Schemes												
Roof Repairs - Various												
Whitehaven Police Station	0	37,625	0	0	0	0	0	0	0	0	0	37,625
Kendal Police Station	0	55,000	0	0	0	0	0	120,000	0	0	25,000	200,000
Roof Repairs - HQ Dog section	0	70,000	0	0	0	250,000	0	0	0	0	0	320,000
Heating, Ventilation & Cooling Plant - Various												
Police Headquarters	0	0	0	0	0	0	300,000	0	0	0	200,000	500,000
Barrow HVAC	0	0	0	0	0	0	0	0	60,000	0	0	60,000
Other Existing Schemes												
UPS Durranhill	0	0	0	0	0	60,000	0	0	0	0	0	60,000
UPS HQ	0	100,000	0	0	0	0	0	0	0	30000	0	130,000
UPS Barrow	0	0	0	0	0	0	0	0	60,000	0	0	60,000
North Resilience Flood Management - NPT/Hostel	3,284,652	0	0	0	0	0	0	0	0	0	0	0
Garage Provision	0	0	500,000	0	0	0	0	0	0	0	0	500,000
Durranhill - Replacement CCTV system and cell call	11,822	0	0	0	0	0	50,000	0	0	0	0	50,000
Kendal CCTV and Cell Call	0	0	0	0	0	0	0	0	50,000	0	0	50,000
West Resilience Flood Management	0	0	1,575,000	5,825,000	5,600,000	0	0	0	0	0	0	13,000,000
Roof Repairs & Glazing - Durranhill	0	0	0	0	0	0	0	75,000	0	0	0	75,000
HQ Static invertor	0	0	0	0	0	0	0	0	0	50000	0	50,000
HQ window conservation	0	0	0	0	0	0	0	50,000	0	0	0	50,000
Durranhill heat and vent plant	27,920	0	0	0	0	0	0	0	0	0	0	0
Gas suppression cylinder replacements	0	20,000	-	0	0	0	0	0	0	0	25,000	45,000
Barrow CCTV camera replacement	0	0	0	0	0	0	0	0	0	35,000	0	35,000
Kendal M&E plant	0	0	0	0	0	0	0	0	0	20,000	0	20,000
Carlisle M&E plant (area 2)	0	0	0	60,000	0	0	0	0	0	20,000	0	80,000
Sub Total Existing Estates Schemes	***3,324,393***	***282,625***	***2,075,000***	***5,885,000***	***5,600,000***	***310,000***	***350,000***	***245,000***	***170,000***	***155,000***	***250,000***	***15,322,625***
New Estates Schemes 2020/21												
Comms Centre Cooling plant life cycle replacement											70000	70,000
Sub Total New Estates Schemes	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***70,000***	***70,000***
Total Estates Schemes	***3,324,393***	***282,625***	***2,075,000***	***5,885,000***	***5,600,000***	***310,000***	***350,000***	***245,000***	***170,000***	***155,000***	***320,000***	***15,392,625***

Appendix 4 (continued)

Estates Scheme Status Recommendations*

- It is recommended that all schemes, with the exception of the West Area Flood Resilience and Garage Workshop provision, be approved as firm, these being routine cyclical replacement, upgrade of existing facilities or continuation of previously agreed schemes.
- It is recommended that the scheme to provided West Area Flood Resilience and Garage Workshop provision 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 2020/21 and 2023/24 only unless otherwise stated.

Other Schemes

Other Schemes 2020/21 onwards	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
CCTV	23,890	0	500,000	0	0	0	0	0	500,000	0	0	1,000,000
New CED migration (currently Taser X26)	0	110,000	220,000	0	0	0	0	0	0	0	0	330,000
Glock Pistol Replacement	0	45,167	0	0	0	0	0	0	0	0	0	45,167
Portable Ballistic Protective Equipment	0	0	0	0	0	0	0	0	0	0	43,000	43,000
Laser Scanning	58,191	0	0	0	0	0	0	0	0	0	0	0
Business Transformation	825,000	0	0	0	0	0	0	0	0	0	0	0
Total Other Schemes	**907,081**	**155,167**	**720,000**	**0**	**0**	**0**	**0**	**0**	**500,000**	**0**	**43,000**	**1,418,167**

Other Scheme Status Recommendations*

- It is recommended that the remainder of the original CCTV scheme remains approved as firm, but that the wholescale 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 2020/21 and 2023/24 only unless otherwise stated.

Analysis of the change in Capital Strategy between February 2019 and the February 2020 position.

	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	4 Year Total TOTAL £
Capital Strategy - Approved (February 2019)	8,708,787	9,466,499	5,354,575	8,342,236	12,025,397	35,188,707
Capital Strategy - Proposed (February 2020)	7,099,440	7,552,976	7,996,594	10,884,805	8,358,113	34,792,488
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Difference by Type						
- ICT Schemes	(2,069,800)	(2,692,645)	2,092,502	2,546,169	(3,543,084)	(1,597,058)
- Fleet Schemes	(556,849)	974,100	(170,483)	(63,600)	(124,200)	615,817
- Estates Schemes	360,222	(307,375)	500,000	60,000	0	252,625
- Other Schemes	657,081	112,397	220,000	0	0	332,397
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Explanation of the Difference by Type						
- ICT Schemes						
ANPR	0	49,450	50,439	51,397	52,374	203,660
Device Growth Replacement	(15,817)	60,000	2,000	2,040	2,081	66,121
Body Worn Growth	0	0	22,484	0	0	22,484
Slippage/B-Fwd	(6,612)	(175,219)	0	(36,750)	36,750	(175,219)
Control Room - reprofile	(706,325)	406,199	100,000	356,000	84,900	947,099
Business Transformation B-Fwd	0	0	0	0	(201,500)	(201,500)
Bus Transformation Removed	(825,000)	0	0	0	(1,266,491)	(1,266,491)
General Slippage	675,612	(2,675,612)	2,000,000	0	0	(675,612)
Purchase of Storage	(243,900)	243,900	0	(387,679)	197,716	53,937
ESN	(76,970)	(915,363)	(82,421)	2,561,161	(2,448,914)	(885,537)
- Fleet Schemes						
Peugeot Expert Slippage	(690,000)	690,000	0	0	0	690,000
18/19 Slipped to 19/20 and future	(74,849)	103,000	19,074	0	(37,000)	85,074
Write Off	61,000	75,000	(33,000)	(60,000)	(43,000)	(61,000)
Sellafield Replacements B-Fwd	80,000	(59,000)	0	0	0	(59,000)
Re-profile & increase for Green Fleet Vehicles	67,000	(39,000)	0	0	0	(39,000)
Territorial Policing Transit Jumbo's B-Fwd	0	180,000	(180,000)	0	0	0
Dog Vehcile B-Fwd due to change in operational use	0	75,000	(40,000)	0	(35,000)	0
Dogvehcile life Extended	0	(70,000)	70,000	0	0	0
Inflation	0	19,100	(6,557)	(3,600)	(9,200)	(257)
2029/30 added in	0	0	0	0	0	0
- Estates Schemes						
Carlisle M&E plant (area 2)	0	0	0	60,000	0	60,000
General Slippage	(192,625)	(307,375)	500,000	0	0	192,625
- Other Schemes						
X2 Taser migration	(250,000)	110,000	220,000	0	0	330,000
Glock Pistol Replacement	0	2,397	0	0	0	2,397
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Difference left to explain	**0**	**0**	**0**	**0**	**0**	**0**

Appendix 7

Property Disposals – Details of Sale Proceeds

Year	Premises Sold	Sale Proceeds £	Costs of Disposal £	Net Capital Receipts £
2019/20	At the time of writing this report there had been no funds received for any premises sold.			
2018/19	Police House -39 Liddle Close Carlisle	159,000	2,546	156,454
2018/19	Ulverston Police Station	500,000	9,037	490,963
2017/18	Cleator Moor Police Station	105,000	1,939	103,061
2017/18	Barrow Police Statation	450,000	10,361	439,639
2016/17	Police House - 21 Thornleigh Road	266,200	5,570	260,630
2016/17	Maryport Police Station	80,500	1,995	78,505
2015/16	Police House 11-12 The Green, Penrith	60,000	2,006	57,994
2015/16	Wigton Police Station	187,500	4,545	182,955
2015/16	Ambleside Police Station	321,500	6,131	315,369
2013/14	Dalton in Furness Police Station	121,000	2,756	118,244
2013/14	Keswick Police Station	327,000	-	327,000
2012/13	Kirkby Stephen Police Station & House	150,000	857	149,143
2012/13	Police House - 3 Centurians Walk, Carlisle	175,500	2,827	172,673
2012/13	Police House - 4 Allan Court, Workington	173,500	2,100	171,400
2012/13	Alston Police Station	166,000	1,123	164,877
2012/13	Ambleside Police Station	141,000	1,753	139,247
2012/13	Cockermouth Police Station	241,000	2,613	238,387
2012/13	Millom Police Station	45,600	1,644	43,956
2012/13	Milnthorpe Police Station	140,500	1,260	139,240
2012/13	Sedbergh Police Station	90,000	1,328	88,672
2011/12	Police House - Durdar	150,000	2,070	147,930
2011/12	Police House - 12 Derwent Drive Kendal	183,500	1,943	181,557
2011/12	Police House - 10 Clifton Court, Workington	125,000	1,320	123,680
2010/11	Police House - 52 Whitestiles, Seaton	115,500	1,924	113,576
2010/11	Police House - 6 Helsington Road, Kendal	216,000	2,668	213,332
2009/10	Police House - 3 Derwent Drive, Kendal	155,000	4,857	150,143
Please note there were no property disposals in 2014/15				-
Total		**4,845,800**	**77,175**	**4,768,625**

Public Accountability Conference
19 February 2020
Agenda Item No 10c

Joint Audit Committee
18 March 2020
Agenda Item No 19

Office of the Police and Crime Commissioner Report

Title: Borrowing, Treasury Management, Investment and MRP Strategies 2020/21 (including Prudential Indicators)

Report of the Joint Chief Finance Officer

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

Purpose of the Report

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 with 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 2020/21.

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.'*

Recommendations

The Commissioner is asked to:

1. Approve the Borrowing Strategy for 2020/21 as set out on pages 8-9
2. Approve the Investment Strategy for 2020/21 as set out on pages 10-13
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-16
4. Approve the other Prudential Indicators set out on pages 17 to 21
5. Approve the Minimum Revenue Provision Policy Statement for 2020/21 as set out on page 22
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.
7. Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

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.

CUMBRIA

Peter McCall

Borrowing, Treasury Management, Investment, and MRP Strategies 2020/21
(Including Prudential Indicators)

Treasury Management Strategy Statement 2020/21

Contents

Key Messages

Approval of an Annual Treasury Management Strategy is a statutory requirement of the Commissioner.

This Strategy aims to provide the Commissioner with a low risk, yet suitably flexible, approach to Treasury management.

General Principles

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.

The Treasury Management Strategy has been prepared in line with the model guidance produced by Link Asset Services 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.

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

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

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of:

General Principles (Continued)

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**.

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 2020/21 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

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, starting at page 10. Finally, the Commissioner's current treasury advisor's Link Asset Services 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.

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.

Key Messages

Scrutiny of the Commissioners treasury activities is the responsibility of the Joint Audit Committee, including:

- Quarterly Reports
- Year End Report
- Treasury Risk Management
- Review of Assurances

General Principles (Continued)

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).

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.

The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget. This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG Guidance.

As a minimum a rolling 12 month cash flow forecast is maintained and is audited as part of the statutory accounts to support the principle that the Commissioner is operating as a 'going concern'

Treasury Management Cash Flow Forecast

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 on page 8 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.

Key Messages

Investment returns and borrowing rates are likely to remain low by historical standards during 2020/21 but to be on a gently rising trend over the next few years. However many factors can impact that forecast.

The Commissioner continues to utilise reserves in place of new borrowing to fund the capital programme.

Treasury Management Cash Flow Forecast (Continued)

The estimated treasury position at 31st March 2020 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	11.876	7.353	4.353	0.625
Interest Receipts	0.096	0.074	0.054	0.008

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 on page 7 below.

The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £22.15m at the start of the 2020/21 financial year. This includes £4.58m 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.

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.

The estimate for interest receipts in 2020/21 is £96k (latest forecast for 2019/20 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%.

Key Messages

The uncertainty over Brexit and the ability to broker an EU trade deal continues to impact the markets, keeping interest rates and growth predictions low.

Interest Rates are forecast to remain at 0.75% with perhaps a small rise in quarter 4 of 2020/21 and again in 2022/23.

Treasury Management Interest Rate Forecast

The below forecasts (provided by Link Asset Services Ltd) have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut the Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut the Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise the Bank Rate. It should be noted that these forecasts are based on information as at January 2020. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

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

Key Messages

The PCC has an increasing Capital Financing Requirement due to the capital programme, but has modest investments, and will therefore need to borrow in the near future.

Borrowing Strategy

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 2020/21 and beyond.

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Balance B/fwd	17.98	19.35	22.15	21.54	20.91	23.66
Plus Capital Expenditure financed from borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Less MRP for Debt Redemption	-0.43	-0.48	-0.61	-0.63	-0.65	-0.68
Balance C/Fwd	**19.35**	**22.15**	**21.54**	**20.91**	**23.66**	**28.58**

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 elsewhere on the agenda (see item 10b).

Key Messages

Diversification of investments continues to provide a level of liquid cash that is suitable for the Commissioners expenditure profile whilst total investment balances remain high. This will continue to be monitored as levels of investments fall and if necessary a minimum level of liquid cash to be maintained will be set.

Short term borrowing from other Local Authorities may be needed in the future to manage short term cash flow shortfalls.

Borrowing Strategy (Continued)

The Commissioner is not expected to have any external borrowing at the start of 2020/21. Given that the CFR is forecast to be £22.15m this effectively means that the Commissioner will be funding over £17.57m of capital spend from internal resources (CFR £22.15m less £4.58m in relation to the 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, 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.

The Commissioner's predecessors had previously raised all of its long term borrowing from the PWLB but other sources of finance are now available and being investigated, such as local authority loans and bank loans, that may be available at more favourable rates.

<u>Short Term Borrowing</u>

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.

Key Messages

The Investment Strategy for 2020/21 remains broadly the same as in previous years as there has been little change in the markets or counterparties.

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

The appropriate balance between risk and return is sought but with returns so low there is nothing to be gained from exposing the Commissioner to extra risk.

Investment Strategy

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.

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

Security
protecting the capital sums invested from loss

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.

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.

Key Messages

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the commissioner applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the Long Term ratings.

Investment Strategy (Continued)

The Commissioner holds significant balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Commissioner's investment balance has ranged between £8.46m and £33.97m. The larger sum was due to the receipt in July 2019 of £19.9m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2020/21 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 £30m.

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, 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 (a CDS is a financial derivative or contract that allows an investor to "swap" or offset credit risk with that of another investor)
- 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 2020/21 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.

Key Messages

The Joint Chief Finance Officer (subject with consultation with the Commissioner) will be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

No plans to use derivatives – this would require explicit approval.

Investment Strategy (Continued)

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 triennial renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

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 2020/21. 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. A derivative is a financial security with a value that is reliant upon or derived from, an underlying asset or group of asset. The derivative itself is a contract between two or more parties, and the derivative derives its price from fluctuations in the underlying asset.

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.

Key Messages

The cash flow forecast is maintained for a minimum rolling 12 months. This allows assessment of the ability to invest longer term and identifies areas where short term borrowing may be required.

Investment Strategy (Continued)

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 £2m 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 2020/21 amounts to £96k (£135k 2019/20) 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.

Key Messages

The 'Treasury Management Practices' statement is updated for each year, scrutinised by the Joint Audit Committee and published on the Commissioner's website alongside this strategy.

Treasury Risk and Treasury Management Practices

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 sets out in some detail defined treasury risks and how those risks are managed on a day to day basis. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). As outlined 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 cash flow 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.

Key Messages

The PCC currently has no external debt and does therefore not need to set limits on the maturity of debt in each period.

Treasury Management Prudential Indicators

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.

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:

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

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.

Key Messages

Compliance with the indicators will be presented to the PCC Public Accountability Conference and the Joint Audit Committee in the quarterly Treasury Activities report.

Treasury Management Prudential Indicators (Continued)

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	2022/23	2023/24
Limit on principal invested beyond one year	£3m	£2m	£2m	£2m	£2m

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 Link Asset Services Ltd 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.

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.

Other Prudential Indicators 2020/21

As per the 2017 CIPFA Prudential Code for Capital Finance and the accompanying guidance notes the Commissioner is required to produce a number of indicators to assist understanding and to evaluate the prudence and affordability of the capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Capital Expenditure and Capital Financing

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

Capital Expenditure	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Expenditure	5.21	7.10	7.55	8.00	10.88	8.36

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Receipts	0.00	0.00	0.00	1.29	1.54	0.00
Government Grants	0.57	0.95	4.06	1.71	0.10	0.00
Revenue Contributions	2.84	2.87	3.49	5.00	5.84	2.76
Total Financing	**3.41**	**3.82**	**7.55**	**8.00**	**7.48**	**2.76**
Borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Total Funding	**1.80**	**3.28**	**0.00**	**0.00**	**3.40**	**5.60**
Total Financing and Funding	**5.21**	**7.10**	**7.55**	**8.00**	**10.88**	**8.36**

Key Messages

Capital Finance Requirement – ‘The mortgage you are yet to take’

Minimum Revenue Provision – ‘Annual Mortgage repayments’

The Authorised Limit is a statutory limit (Local Government Act 2003) above which the Commissioner has no authority to borrow.

Other Prudential Indicators 2020/21 (Continued)

Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce with the Minimum Revenue Provision (MRP) made each year from the revenue budgets.

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Balance B/fwd	17.98	19.35	22.15	21.54	20.91	23.66
Plus Capital Expenditure financed from borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Less MRP for Debt Redemption	-0.43	-0.48	-0.61	-0.63	-0.65	-0.68
Balance C/Fwd	**19.35**	**22.15**	**21.54**	**20.91**	**23.66**	**28.58**

Authorised Limit

The represents a control on the maximum level of external debt. Whilst not desired it could be afforded by the authority in the short term, but is not sustainable in the longer term. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

Authorised Limit for External Debt	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
External Borrowing	21.10	24.06	23.64	23.22	26.20	31.38
Other Long Term Liabilities	4.75	4.59	4.40	4.20	3.97	3.70
Total Authorised Limit	25.85	28.65	28.04	27.41	30.16	35.08

Key Messages

The Operational Boundary limit is not an absolute limit of external debt and may be exceeded temporarily.

Currently the Commissioner has no external borrowing.

Other Prudential Indicators 2020/21 (Continued)

Operational Boundary

The Operational Boundary is a limit beyond which external debt is not normally expected to exceed. This limit is not an absolute limit but it reflects the expectations of the level at which external debt is not normally expected to exceed.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together. Consistent with the Authorised Limit, the Joint Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long Term Liabilities. Any such changes will be reported to the Commissioner and the Joint Audit Committee meeting following the change.

Operational Boundary for External Debt	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2021/22 £m	2022/23 £m
External Borrowing	19.60	22.56	22.14	21.72	24.70	29.88
Other Long Term Liabilities	4.75	4.59	4.40	4.20	3.97	3.70
Total Operational Boundary	24.35	27.15	26.54	25.91	28.66	33.58

Actual External Debt

The Commissioner's actual external debt as at 31 March 2020 will be £4.58m, comprising only of other long term liabilities of £4.58m 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 previous external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

Key Messages

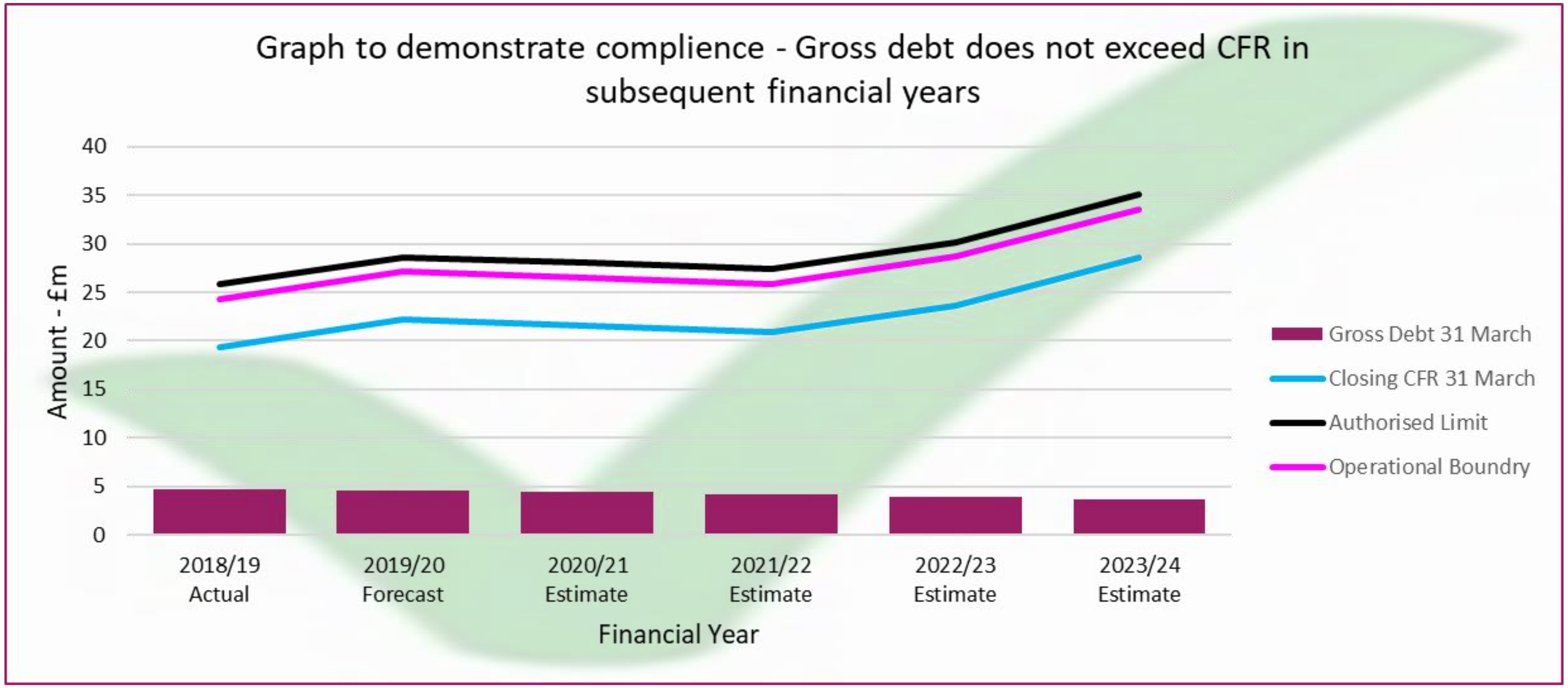
Other Prudential Indicators 2020/21 (Continued)

Gross Debt and the Capital Financing Requirement

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. Gross debt, except in the short term, should not exceed CFR in the preceding year plus the estimates for CFR for the three subsequent years.

Gross Debt and Capital financing requirement	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Closing CFR 31 March	19.35	22.15	21.54	20.91	23.66	28.58
Gross Debt 31 March	4.75	4.58	4.40	4.20	3.96	3.70

Using the figures from the above stated indicators the graph below demonstrates compliance as gross debt remains below CFR, authorised and operational limits for all years presented:



Other Prudential Indicators 2020/21 (Continued)

Ratio of financing costs

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

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

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

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Investment income	0.15	0.14	0.10	0.07	0.05	0.01
MRP	0.43	0.49	0.61	0.63	0.65	0.68
Financing Costs	**0.29**	**0.35**	**0.51**	**0.55**	**0.60**	**0.67**
Net Revenue Stream	104.02	111.14	118.76	120.04	124.44	126.84
Ratio	0.27%	0.32%	0.43%	0.46%	0.48%	0.53%

Key Messages

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

In relation to the commissioner this would be over 50 years as borrowing is only used to finance Land and Building schemes.

Calculation will be based on Option 1 for pre 2008/9 debt and option 3 thereafter.

The Commissioner is also permitted to make additional voluntary payments if required (voluntary revenue provision VRP) although there are no plans to make any in the medium term forecasts.

Annual MRP Statement for 2020/21

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.

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.

It is proposed that The Commissioner's MRP policy for 2020/21 is unchanged from that of 2019/20 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. 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. 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 2020/21.

Counterparty Selection Criteria and Approved Counterparties

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 there are no amendments to the criteria used in determining approved investment counterparties for 2020/21 compared to those in operation for 2019/20.

Counterparty Selection Criteria

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 2020/21 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.

The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services 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.

The approved investment counterparties for the 2020/21 investment strategy are summaried as follows:

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

Key Messages

Whilst these limits also apply to councils own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment limit of £1m will apply in such circumstances

Changes to accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date charged to the Statement of Comprehensive Income and expenditure Account. Such instruments are not currently key to our strategy.

A more detailed explanation of each of these counter party groupings in provided in Schedule B (page 26).

Counterparty Groupings / Limits

The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in Schedule A (page 25). 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 2020/21 are the same as the limits for 2019/20. 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 cash flow is rewarded by a slightly increased interest rate. Link Asset Services Ltd suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

Description of Credit Ratings

As outlined above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd.

Key Messages

The UK Government is considered the safest place to invest as it has never defaulted and therefore minimum credit ratings do not apply.

The Commissioner has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA.

All investments are Sterling. Therefore the Commissioner is not exposed to any foreign exchange / currency risk.

Schedule A – Counterparty Groupings and Associated Limits

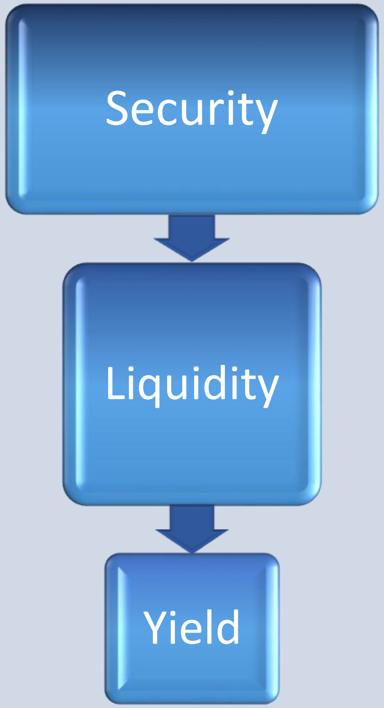
Investment Limits						
Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
Category Limit 2020/21	*Amount*	*£20m*	*£20m*	*Unlimited*	*£10m*	*£20m*
	Duration					
Individual Institution/Group Limits						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (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 2020/21 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined on page 23 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 £2m.

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of



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.