Decision No 2016/49

POLICE & CRIME COMMISSIONER

DECISION 2016/49	DATE: 10 FEBRUARY 2017
TREASURY MANAGEMENT POLICY AND STRATEGY 2017/18	
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Executive Summary

This report outlines the proposed Treasury Management Policy Framework for 2017/18 as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2011). It includes the Police and Crime Commissioner's borrowing and investment strategies, together with the treasury management prudential indicators which seek to ensure that the Commissioner's borrowing to fund capital expenditure remain both sustainable and affordable.

Signature Clive Grunshaw

Police and Crime Commissioner

Date 10th February 2017.

1. Background

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

1.2. In February 2012 The Police and Crime Commissioner adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the approval of a treasury management strategy before the start of each financial year. As a local authority the Police and Crime Commissioner for Lancashire ("the Commissioner") is also bound by the treasury management framework expressed within the code and therefore the requirements of the code must be met by Police and Crime Commissioners.

1.3. In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires Authorities, including police and crime Commissioners, to approve an investment strategy before the start of each financial year. The strategy also has regard to other CIPFA treasury management publications such as risk management in 'Treasury Risk Toolkit for Local Authorities' (2012) and the use of derivatives in 'Using Financial Instruments to Manage Risk' (2013.)

2. Statutory requirements

2.1. The Local Government Act 2003 (the Act) and supporting Regulations requires the Commissioner to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Commissioner's capital investment plans are affordable, prudent and sustainable.

2.2. This report fulfils the Commissioner's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

3. CIPFA requirements

3.1. The primary requirements of the CIPFA Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commissioner's treasury management activities, the current version is shown at Appendix 1.

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives.

c) The production of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

d) Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

4. Treasury Management Strategy for 2017/18

4.1. This Strategy Statement has been prepared in accordance with the Code of Practice (2011). In accordance with the code, the Treasury Management Strategy will be approved by the Commissioner before the start of the financial year. In addition to this the Commissioner will also receive a mid-year report and a final year-end outturn report. In addition there will be monitoring and review reports provided in the event of any changes to Treasury Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

4.2. The following reporting arrangements will be adopted in accordance with the requirements of the revised Code:

Area of Responsibility	Committee/ Officer	Frequency
Treasury Management Policy Statement	Police and Crime Commissioner	Annually before the start of the financial year.
Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval	Police and Crime Commissioner	Annually before the start of the financial year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report, scrutiny of performance	Police and Crime Commissioner	Mid-year – 6 months
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Police and Crime Commissioner	As required
Annual Treasury Management Outturn Report	Police and Crime Commissioner	Annually by 30 September
Treasury Management Monitoring Reports	Chief Finance Officer	Quarterly
Treasury Management Practices	Chief Finance Officer	Annually

4.3. In setting the Treasury Management Strategy, the following factors have been taken into account; economic forecasts, the level of the approved Capital Programme and the current structure of the Commissioner's debt portfolio. It covers the following aspects of the Treasury Management function:

a) Prudential Indicators which will provide a controlling framework for treasury management activities.

b) Long-term debt outstanding;

c) Prospects for interest rates;

d) The Borrowing Strategy;

e) The Investment Strategy;

f) Policy on borrowing in advance of need.

5. Economic Context

5.1. Economic Forecast

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. In January The Prime Minister made a speech indicating that Brexit means an exit from the Single Market and the Customs Union however the government will seek a trade deal with the EU for the greatest possible access with full reciprocity. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013. However the Bank is expected see this as a temporary impact of the falling currency. Therefore the inflation overshoots during 2017 are unlikely to result in an increase in interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates. In December 2016 The Federal Open Market Committee (FOMC) of the US Federal Reserve increased the target range for official interest rates. The range was increased to between 0.5% and 0.75%, from 0.25% and 0.5%. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

The impact of the economic and political position on interest rates is also uncertain. The Bank of England has highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. However, should the economy enter recession then a reduction can't be ruled out. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to Lancashire County Council and details of their forecasts are shown later in this report.

5.2. Credit outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

5.3. Legislative Context

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

5.4. Current Position

Current Treasury Portfolio Position

The current value of the Commissioner's Treasury Portfolio at 31.12.2016 is:	**Principal £m**	**%**
DEBT		
Fixed rate loans from PWLB	18.154	100
Variable rate loans	0	0
Total debt	**18.154**	
INVESTMENTS		
Variable rate investments in the County Council's General County Fund estimated for 31/12/2016 @ 0.25%	26.977	
3 yr Fixed Loan to UK local authority matures 23/10/17 @ 1.50%	5.000	
Senior Secured Bond Fund	5.000	
Total investments	**36.977**	

The level of investments represents the Commissioner's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is net surplus position of £16.823m as at 31 December 2016 which is expected to fall to at the end of the 2017/18 financial year.

6. Borrowing Requirement, Strategy and Prospects for Interest Rates.

6.1. The table below shows the potential total borrowing requirement for the current and the next three years.

6.2. The Commissioner has not borrowed for capital purposes since 2007, preferring instead to fund capital expenditure and maturing borrowing from internal resources; hence there is provision for taking previous years borrowing requirement in the table. However, it is anticipated that borrowing from internal resources will continue but the situation will be reviewed by the Chief Finance Officer.

	2016/17 Revised £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Programme Expenditure	**28.804**	**35.537**	**12.093**	**7.565**
Financed by:				
Capital Receipts	9.167	0.260	0.150	0
Grants and Contributions	1.639	2.093	1.293	1.293
Revenue Contributions and reserves	13.651	10.302	7.890	5.745
Borrowing	**4.347**	**22.882**	**2.760**	**0.527**
Add Maturing Debt to be replaced:				
Long Term PWLB	0.500	1.100	1.100	1.100
Previous Year Borrowing Requirement brought forward	0	5.000	5.000	7.525
Less Statutory Charge to Revenue	(1.254)	(1.256)	(1.313)	(1.921)
Total Borrowing Requirement	**3.593**	**27.726**	**7.547**	**7.233**

7. Capital Funding Strategy

7.1. The Commissioner has set aside funding in ear-marked revenue reserves to contribute to the delivery of the investment included in the Capital Programme. This resource will be used, in the first instance, to provide finance for short life assets such as IT systems and equipment in order to avoid the use of borrowing where possible for this type of asset. This approach represents a prudent strategy for the funding of short life assets as the cost of borrowing over shorter terms is more expensive than for longer periods and the use of reserves to minimise such shorter life borrowing represents better value for money.

8. Interest Rate Forecast and Prospects for Market Liquidity

8.1. The prevailing and forecast interest rate situation will be monitored to ensure that opportunities for debt restructuring are maximised. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to Lancashire County Council.

8.2. Treasury Consultants Arlingclose Ltd forecast the first rise for official interest rates to be in the second quarter of 2018. It is expected that there will be a gradual pace of increases thereafter. Arlingclose are also forecasting that when the economy reaches the point that it can be considered to have recovered from the financial crisis, and rates rise to 'normal' levels, bank rate will range between 2.5% and 3.5%, considerably lower than pre-crisis levels.

8.3. The latest forecast provided by Arlingclose Ltd is shown in the table below:

	Bank Rate	3 Month LIBID	12 Month LIBID	5 Year Gilt Yield	10 Year Gilt Yield	20 Year Gilt Yield	50 Year Gilt Yield
Mar-17	0.25	0.25	0.50	0.50	0.95	1.50	1.40
Jun 17	0.25	0.25	0.50g	0.45	0.90	1.45	1.35
Sept 17	0.25	0.30	0.50	0.45	0.90	1.45	1.35
Dec 17	0.25	0.30	0.50	0.45	0.90	1.45	1.35
Mar 18	0.25	0.30	0.50	0.50	0.95	1.50	1.40
June 18	0.25	0.30	0.50	0.50	0.95	1.50	1.40
Sept 18	0.25	0.30	0.60	0.50	0.95	1.50	1.40
Dec 18	0.25	0.30	0.70	0.55	1.00	1.55	1.45
Mar 19	0.25	0.30	0.85	0.60	1.05	1.60	1.50
June 19	0.25	0.30	0.90	0.65	1.10	1.65	1.55
Sept 19	0.25	0.30	0.90	0.70	1.15	1.70	1.60
Dec 19	0.25	0.30	0.90	0.75	1.20	1.75	1.65

8.4. In the above table 'bank rate' refers to the policy rate of the Bank of England. 'LIBID' is the London Interbank bid rate and can be used as a proxy for short term market interest rates. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long term interest rates. The Commissioner can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 1.75%, 0.95% plus 0.80%.

8.5. This forecast has been based on the following underlying assumptions:

a) The medium term outlook for the UK economy is dominated by the negotiations to leave the EU
b) The global environment has significant uncertainty with repercussions for the financial markets. Financial markets appear to be expecting stronger global growth , but the potential rise in protectionism could dampen growth prospects
c) Recent data presents a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending

d) Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
e) The rise in inflation will continue and will act to slow real growth in household spending
f) Given the pressure on household spending and business investment the rise in inflation is unlikely to prompt monetary tightening by the Bank of England

9. Borrowing Strategy

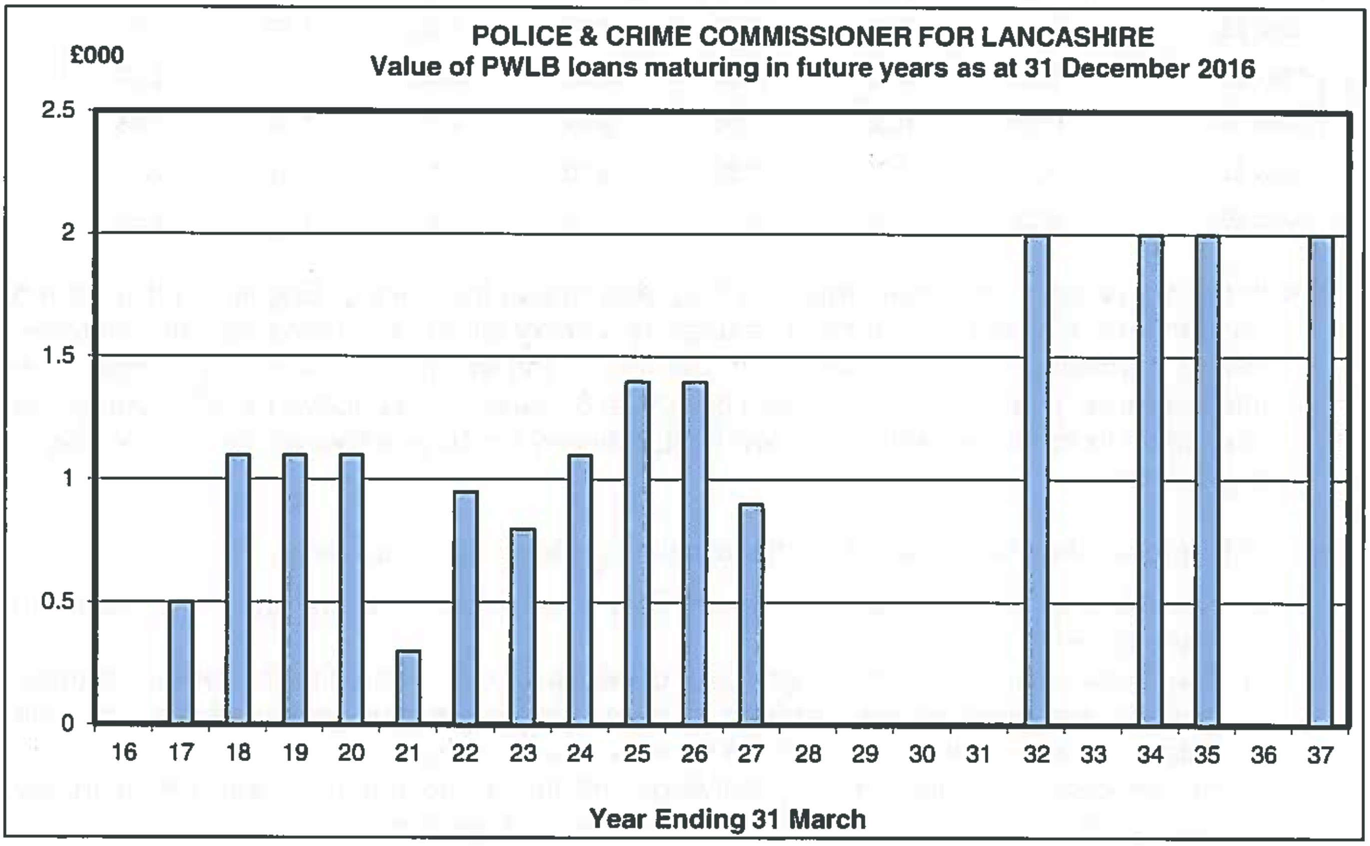
9.1. In view of the above interest rate forecast the Commissioner's borrowing strategy will be based upon the following information:

a) Official UK interest rates rise are not anticipated to rise in 2017/18. Gilt yields are projected to be fairly flat in the short term with some increase towards the end of the year. This will continued to be reviewed with the result that:

i) If it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

ii) If it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

9.2. The chart below shows the current maturity profile of the Commissioner's borrowings.



The interest rate on the loans ranges from 4.1% to 4.75%.

9.3. The cheapest borrowing at present is internal borrowing facilitated by running down cash balances and foregoing interest earned on investments at historically low rates - this is the policy the Commissioner has been pursuing for a number of years, funding capital expenditure and paying down debt maturities from existing balances. Although this policy has been beneficial the significant capital expenditure funded from borrowing may result in a need for new borrowing.

9.4. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. In addition the Commissioner may borrow short term loans to cover unexpected cash flow shortages.

9.5. The approved sources of long-term and short-term borrowing currently are:

a) Public Works Loan Board
b) UK local authorities
c) any institution approved for investments
d) any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
e) UK public and private sector pension funds

9.6. In the past the Commissioner has raised all long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

9.7. GLA Municipal Bond Agency

a) The Municipal Bond Agency was established by the Local Government Association in June 2014 with the primary objective of setting up an alternative capital funding source for the local government sector and reducing UK local authority financing costs by becoming the most efficient and cost effective provider of finance. The company is owned by the LGA who are the founder shareholder and 56 other local authority shareholders one of which is Lancashire County Council.

b) It is expected that the MBA will make the first tranche of borrowing available to local authorities in 2017. In order to borrow from the MBA the each local authority is required to sign a joint and several guarantee contained within a framework agreement which is currently being considered by the County Council.

c) If following due diligence it is decided the Municipal Bond Agency is a suitable counterparty for borrowing, a separate report including information on the joint and several guarantee will be presented for consideration.

9.8. Debt Restructuring

a) The Chief Finance Officer, together with the County Council's treasury management team reviews options for debt restructuring on a regular basis. A recent review found that given the relatively favourable interest rates at which these have been taken out (below 5%) and the penalties associated with any early repayment, restructure is not considered financially viable at the present time. A better option for the immediate future is to utilise reserves to reduce the future borrowing requirement rather than repay debt.

b) Frequent discussions will continue to take place between the Chief Finance Officer and the Treasury Management Team to monitor this situation and any future decisions on debt financing will be put through the same rigorous cost and prudence analysis that external borrowing has traditionally gone through and will be reported to the Commissioner in due course.

10. Policy on Borrowing in Advance of Need

10.1. The Commissioner will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Commissioner can ensure the security of such funds and relationships.

10.2. In determining whether borrowing will be undertaken in advance of need the Commissioner will:

a) Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
b) Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
c) Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
d) Consider the merits and demerits of alternative forms of funding.
e) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11. Investment Strategy

11.1. The Commissioner will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are:

(a) The security of capital and
(b) The liquidity of its investments.

11.2. The Commissioner will also aim to achieve the optimum return on his investments commensurate with proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments and in accordance with this the 2017/18 policy needs to take into account the recent developments in banking reform legislation.

12. Current Investments

12.1. At 31st December 2016 the Commissioner held £36.977m invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Commissioner's investment balance has averaged at £43.3m, which a highest balance of £75.579mLevels for 2017/18 will be dependent upon the use of reserves and the whether or not additional internal borrowing is used to fund capital expenditure In line with the 2016-17 treasury management strategy, the Commissioner will only use very high quality counterparties for investments. All of the Commissioner's investments are currently with other local authorities

12.2. The Commissioner currently has access to a call (instant access) account with LCC. This currently pays bank rate, (currently 0.25%). Each working day the balance on the Commissioner's Current Account is invested in this to ensure that the interest received on surplus balances is maximised.

12.3. Secondary liquidity is provided through the AAA rated 24 Asset Management Senior Secured Bond Fund. A £5m investment was made in this fund in July 2015. The cash is callable with 3 days' notice, and is currently yielding 1.67%

12.4. In addition a long term loan has been placed with another UK local authority as outlined below:

Start Date	End Date	Principal	Rate	Annual Interest	Interest 2015/16
22/10/14	23/10/17	£5,000,000	1.5%	£75,000	£75,000

12.5. The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2016 is £0.148m on an average balance of £48.228m. The current interest rate is 0.32%.This compares favourably with the benchmark 7 day LIBID which averages 0.24 % over the same period.

12.6. The economy is currently in a low yield environment but both the CIPFA Code and the CLG Guidance require the Commissioner to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Commissioner's objective when investing money 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.

12.7. The Commissioner can invest with other local authorities. Following the downgrade of the UK credit rating by the rating agencies, several local authorities saw a reduction in their ratings. Therefore, consideration has been given to reducing the risk associated with the Commissioners investment with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to four years, subject to this meeting their approved strategy. For periods longer than four years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

	Maximum individual investment (£m)	Maximum total investment (£m)	Maximum period
Up to 4 years	10	250	4 years
Over 4 years	10	50	10 years

12.8. The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

12.9. The Commissioner may invest surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Counterparty		**Cash limit**	**Time limit †**
Secured Bank Deposits, Reverse repurchase Agreements	AAA	£5m each	5 years*
	AA+		3 years*
	AA		2 years*
	AA-		2 years*
Call Accounts with banks and other organisations with minimum AA- credit rating		£10m	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£10m	10 years
Secured Bond Funds AA rating and WAL not more than 3 yrs		£5m each	n/a
Secured Bond Funds AAA rated and WAL not more than 5 yrs		£5m each	n/a

* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments

13. Legislative Context

13.1. Bail-in legislation, which aims to ensure that failing banks are no longer rescued from taxpayers is now in place. There is a hierarchy of loss with equity being the first to suffer loss. Deposits by local authorities would be deemed to be senior unsecured deposits and have some of the least protection. Therefore if a bank should be failing there is a higher risk of losing some of its deposit or having it converted to equity in order to maintain the bank as a going concern.

13.2. In the 15/16 policy a replacement liquidity option through bond funds was included within the treasury policy with allowable funds defined by credit rating and weighted average life (WAL.)

13.3. Investing in senior secured bonds backed by collateral provides a protection against bail-in. In 2016/17 the secured lending was extended to include repurchase agreements.

13.4. Whilst the investment strategy has been amended to allow greater flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Chief Finance Officer and

LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

13.5. The legislative and regulatory background to treasury management activities requires the Commissioner to set out the use of "specified" and "non-specified" investments.

13.6. Specified Investments: The CLG Guidance defines specified investments as those:

a) denominated in pound sterling,
b) due to be repaid within 12 months of arrangement,
c) not defined as capital expenditure by legislation, and invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

13.7. The Commissioner defines "high credit quality" organisations as those having a credit rating of A+ or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

13.8. Non-Specified Investments are any investment that does not meet the definition of a specified investment. The Commissioner does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition of specified credit quality.

13.9. The Commissioner may lend or invest money using any of the following instruments:

a) interest-bearing bank accounts,
b) fixed term deposits and loans,
c) callable deposits where the Commissioner may demand repayment at any time (with or without notice),
d) certificates of deposit,
e) bonds, notes, bills, commercial paper and other marketable instruments, and
f) shares in bond funds

13.10. Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

13.11. On behalf of the Commissioner the county council's treasury management section prepares daily cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

13.12. The performance target on investments will remain as being above the average rate for 7 day notice money.

14. Minimum Revenue Provision (MRP) Strategy

14.1. Minimum revenue provision (MRP) is the minimum amount which must be charged to the revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities.

14.2. The previous Lancashire Police Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and this was subsequently adopted by the Commissioner. The Commissioner is required to assess MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

14.3. The major proportion of the MRP will relate to the more historic debt liability that will continue to be charged in accordance with the Capital Financing Requirement method for MRP calculation. This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing has not already been made. This method of calculation has been used by the Authority since the introduction of the MRP in 2004.

14.4. Unsupported borrowing reflected within the debt liability will be subject to MRP under the Asset life method, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

14.5. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Commissioner. However, the Commissioner reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

14.6. As some types of capital expenditure incurred by the Commissioner are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

14.7. In summary it is proposed that the Commissioner continues to use the Capital Financing Requirement option as applied to all supported borrowing.

14.8. The Commissioner currently applies the Asset Life method (Equal Charge approach) to capital expenditure financed by unsupported borrowing and it is proposed that this option also be continued.

14.9. The capital programme contains a scheme for the replacement of Blackpool police station which will involve an additional MRP charge to cover the financing of the new asset. This charge will be deferred, using current capital financing regulations, until the asset becomes fully operational in, when savings will be realised from the restructure of the existing facilities.

15. Prudential Indicators for 2017/18 to 2019/20 in respect of the Police and Crime Commissioner's Treasury Management Activities.

15.1. In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, every local authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

15.2. The following table sets out the debt and investment-related indicators which provide the framework for the Commissioner's proposed borrowing and lending activities over the coming three years. These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators, but need to be reaffirmed and approved as part of this Treasury Management Strategy.

Treasury Management Prudential Indicators	**2016/17 (Revised) £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
1. Adoption of the Revised CIPFA Code of Practice on Treasury Management	Adopted for all years			
2. Authorised limit for external debt - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements.				
Borrowing	26,000	53,000	55,000	55,000
Other long-term liabilities	1,000	1,000	1,000	1,000
TOTAL	27,000	54,000	56,000	56,000
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Commissioner's current plans.				
Borrowing	23,000	45,000	46,000	44,000
Other long-term liabilities	500	500	500	500
TOTAL	23,500	45,500	46,500	444,000

4. Gross Debt / Capital Financing Requirement Indicator

	2016/17 (Rev) £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Financing Requirement	39.272	60.898	62.345	60.951
Maximum Gross Debt	21.747	43.373	44.820	43.426
Debt to CFR (%)	55.4	71.2	71.9	71.2

This is a measure of prudence. The fact that gross debt is less than the capital financing requiremer been made for capital purposes.

5. Upper limit for fixed interest rate exposure				
Upper limit of borrowing at fixed rates	100%	100%	100%	100%
Upper limit of investments at fixed rates	100%	100%	100%	100%
6. Upper limit for variable rate exposure				
Upper limit of borrowing at variable rates	75%	75%	75%	75%
Upper limit of investments at variable rates	100%	100%	100%	100%
7. Upper limit for total principal sums invested for over 364 days (per maturity date as a percentage of total investments.)	50%	50%	50%	50%

8. Maturity structure of Debt	**Upper Limit %**	**Lower Limit %**
Under 12 months	50	-
12 months and within 24 months	50	-
24 months and within 5 years	50	-
5 years and within 10 years	80	-
10 years and above	90	25

	2016/17 (Rev)	2017/18	2018/19	2019/20
9. Ratio of financing costs to revenue stream	0.78%	1.02%	1.08%	*1.33%*
10. Estimate of impact of capital investment on council tax		£26.17	£23.25	£18.36
11. Estimate of impact of capital investment on council tax NET of revenue contributions to capital		£1.51	£4.55	£4.88

Decision Required

The Commissioner is asked to approve the treasury management strategy for 2017/18, including

a) Treasury management prudential indicators

b) The borrowing strategy

c) The investment strategy

d) The MRP strategy

e) To formally adopt the updated policy statement at Appendix A

Officer declaration	Date
LEGAL IMPLICATIONS – As above	
FINANCIAL IMPLICATIONS – As above	
EQUALITIES IMPLICATIONS – As above	
CONSULTATION – As above	

Governance & Policing Lead - Office of the Police & Crime Commissioner for Lancashire

I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature.....I. Dickinson.....Date.....10.1.17.....

Treasury Management Policy Statement

The Police and Crime Commissioner's financial regulations require him to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of his treasury activities, as a cornerstone for effective treasury management.

Definition

The Police and Crime Commissioner defines his treasury management activities as: the management of the Commissioner's investments and cash flows, his 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.

Risk management

The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of his 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.

Value for money

The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. He 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.

Borrowing policy

The Commissioner aims to fund its capital expenditure in a cost effective manner. This will involve using short term and variable rate loans when these are seen as being the most beneficial strategy. However consideration will be given to the long term funding needs and the stability to budgets that fixed interest loans provides. The Commissioner will also constantly evaluate debt restructuring opportunities of the existing portfolio.

The Commissioner will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. He will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

The Commissioner's primary objectives for the investment of his surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of services is an important, but secondary, objective.

The Commissioner will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.