OPCC FINANCE MEETING	14 MARCH 2024
TREASURY POLICY STATEMENT & TREASURY STRATEGY 2024/25 TO 2027/28	
REPORT OF: THE JOINT CHIEF FINANCE OFFICER	

1 PURPOSE

1.1 To review and adopt the attached four year Treasury Management Policy Statement and Strategy 2024/25 to 2027/28.

1.2 The Treasury Management Policy Statement and Strategy 2024/25 to 2027/28 was considered and scrutinised by the Joint Independent Audit Committee (JIAC) at its meeting on 26 February 2024. At the meeting JIAC recommended the Treasury Management Policy Statement and Strategy to be presented to the Police and Crime Commissioner for adoption.

2 RECOMMENDATION

2.1 The Commissioner is recommended to:

I. Adopt the attached four-year Treasury Policy Statement and Strategy 2024/25 to 2027/28.

3 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Code of Practice on Treasury Management in the Public Services (the Code) which represents best practice in Treasury Management. By adopting the attached Treasury Policy Statement and Strategy for 2024/25 to 2027/28 the Commissioner contributes towards achieving best practice.

3.2 Part 1 of the Local Government Act 2003 specifies the powers of local authorities to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. For the purpose of the Local Government Act 2003 Police and Crime Commissioners are classified as local authorities. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent, and sustainable. The Prudential Code also refers to the need for a clear and integrated Treasury Strategy.

3.3 In addition, under Section 15 of the Local Government Act 2003, local authorities are required to have regard to the DLUHC's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy.

4. TREASURY POLICY AND TREASURY STRATEGY

4.1 The Treasury Policy 2024/25 to 2027/28 is set out in Appendix 1 and details the overarching approach to the provision of Treasury Management which includes the Treasury Strategy, Investment Strategy, and appropriate delegations.

4.2 The Treasury Strategy for 2024/25 to 2027/28 covers the specific activities proposed for the next four years in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times. The Strategy is attached at Appendix 2 to this report.

4.3 The Treasury Strategy complies with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities and Part 1 of the Local Government Act 2003.

4.4 The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments are essentially the purchase of income yielding assets. The Commissioner has no non-financial investments.

4.5 In addition, there are further Appendices 3 to 7, which set out the current interest rate forecasts, Prudential Treasury Indicators, Specified Investments, Maximum Maturity Periods, and details of foreign countries that could be invested with, all of which underpin the core approach detailed in the Strategy.

5 FURTHER INFORMATION

5.1 The following documents have been used in preparation of the report:

- Local Government Act 2003.
- DLUHC Guidance on Local Government Investments.
- CIPFA's Prudential Code for Capital Finance in Local Authorities 2021.
- CIPFA's Code of Practice on Treasury Management in the Public Services 2021.
- The approved Treasury Management Practice Statements as used for day to day management purposes.
- Link Group Treasury Management Strategy update 2024/25.

6 CONSIDERATIONS

Freedom of Information	NON-EXEMPT
Consultation	Yes
Consultation has taken place with external treasury advisers Link Group.	
Resource	Yes
There are no financial implications directly arising from the contents of this report. Any income and expenditure within the scope of the report is already included in the agreed revenue budget.	
Equality	No
Legal	No
Risk	Yes

The Treasury Policy and Strategy recommended for approval have been prepared with the aim of maintaining the security and liquidity of investments to ensure that the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim.	
Communication	No
Evaluation	No

Appendix 1

Treasury Policy 2024/25 to 2027/28

1. Introduction

1.1 The Commissioner has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) and maintains:

- A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of our treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the policies and objectives are carried out, and prescribing how the activities will be managed and controlled.

1.2 CIPFA defines Treasury Management as:

'*The management of the organisation's borrowing, investments and cash flows, including 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.*'

1.3 On 20 December 2021 CIPFA issued revised Prudential and Treasury Management Codes (2021 Editions). CIPFA stated that after a soft introduction of the Codes for 2022/23, Local Authorities were expected to fully implement the required reporting changes within their TMSS/AIS reports from 2023/24.

1.4 The main objective of the 2021 Code changes (and the previous 2017 Codes) was to respond to the major expansion of local authority investment activity over recent years into commercial activity and the purchase of non-financial investments, particularly property.

1.5 The Police and Crime Commissioner for Northumbria has not engaged in any commercial investments and has no non-treasury investments.

1.6 The Commissioner's Treasury Policy Statement and Strategy 2024/25 to 2027/28 is fully compliant with the new 2021 Code editions.

1.7 The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report. The Capital Strategy was approved by the Police and Crime Commissioner on 29 February 2024, as part of the Medium Term Financial Strategy (MTFS) 2024/25 to 2027/28 approval process and includes approval of the 4-year Capital Programme and prudential indicators set for 2024/25.

1.8 The Police and Crime Commissioner for Northumbria has delegated responsibility to the Chief Finance Officer (CFO) for the treasury management function and the undertaking of investment and borrowing on behalf of the Commissioner, ensuring that all activities are in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services.

2. Treasury Strategy

2.1 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 the risk implications for the Commissioner.

2.2 The Treasury Strategy encompasses the requirements of CIPFA's Treasury Management Code of Practice, CIPFA's Prudential Code and the DLUHC's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy Statement.

2.3 The Treasury Strategy covers the following:

a) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.

b) Prospects for interest rates.

c) The borrowing strategy.

d) Debt rescheduling.

e) Policy on borrowing in advance of need.

f) Management of interest rate exposure.

g) The investment strategy.

h) Creditworthiness policy.

i) The policy on the use of external service providers.

2.4 The strategy for 2024/25 to 2027/28 is attached at Appendix 2.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Commissioner may borrow money:

a) For any purpose relevant to its functions under any enactment; or

b) For the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Code of Practice on Treasury Management in the Public Services the following indicators have been adopted for 2024/25:

- Compliance with the Code of Practice on Treasury Management in the Public Services.
- Calculations of:
  - Authorised limit.
  - Operational boundary.
  - Actual external debt.
  - Maturity structure of borrowing.
  - Upper limits for principal sums invested for periods of over 365 days.
  - Gross debt and Capital Financing Requirement (CFR).
  - Debt liability benchmark.

3.3 The prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators were approved by the Commissioner on 29 February 2024 as part of the Capital Strategy, Capital Programme and Medium Term Financial Strategy (MTFS) 2024/25 to 2027/28 approval process.

3.4 Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2024/25 is included in appendix 4.

4. Annual Investment Strategy

4.1 Part 1 of the Local Government Act 2003 relaxed the investment constraints for local authorities.

4.2 The DLUHC has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to "have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify". The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an annual investment strategy. This is included as Section 6 of the Treasury Strategy in Appendix 2.

4.4 The annual investment strategy document will include:

- The Commissioner's risk appetite in respect of security, liquidity and return.
- The definition of 'high' and 'non-high' credit quality to determine what are specified investments and non-specified investments.
- Which specified and non-specified instruments the Commissioner will use, dealing in more detail with non-specified investments given the greater potential risk.
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies.
- The types of investments that may be used during the course of the year.
- The limit to the total amount that may be held in each investment type.
- The Commissioner's policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Commissioner will deal with changes in ratings, rating watches and rating outlooks.
- Limits for individual counterparties, groups and countries.
- Guidelines for making decisions on investments and borrowing.

5. Policy on Interest Rates Exposure

5.1 The Commissioner's approach to managing interest rate exposure is described at section 4.10 of the Treasury Strategy 2024/25 to 2027/28.

5.2 The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the CFO will require approval from the Commissioner prior to entering into any arrangement of this nature.

6. Policy on External Managers

6.1 Treasury management advisers (Link Group) assist the Commissioner in achieving the objectives set out in the Treasury Policy Statement. The CFO has not appointed external investment fund managers to directly invest the Commissioner's cash.

6.2 The current contract with Link Group was awarded on 1 November 2022 with a maximum contract duration of 4 years.

7. Policy on Delegation, Review Requirements and Reporting Arrangements

7.1 It is the Commissioner's responsibility under the Code to approve a Treasury Policy Statement.

7.2 The Commissioner delegates the review and scrutiny of the Treasury Management Strategy and Policies, along with monitoring performance by receiving the mid-year review and annual report, to the Joint Independent Audit Committee, and the execution and administration of Treasury Management decisions to the CFO. Any proposals to approve, adopt or amend policy require the consent of the Commissioner and are matters for the Commissioner to determine.

7.3 The Commissioner will receive:

a) A four year Treasury Strategy report, including the annual Investment Strategy, before the commencement of each financial year.

b) A mid-year report on borrowing and investment activity.

c) An annual report on borrowing and investment activity by 30 September of each year.

d) A Capital Strategy report providing the following:

- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- An overview of how the associated risk is managed.
- The implications for future financial sustainability.

Appendix 2

Treasury Strategy 2024/25 to 2027/28

1. Introduction

1.1 The Treasury Strategy has been prepared in accordance with the Treasury Management Code of Practice (the Code). The Code emphasises a number of key areas including the following:

a) The Code must be formally adopted.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Commissioner's treasury management activities.

c) The Commissioner's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.

e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.

f) A sound diversification policy with high credit quality counterparties which considers setting country, sector, and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.

h) The main annual treasury management reports must be approved by the Commissioner.

i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.

j) Each Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.

k) Treasury management performance and policy setting should be subjected to prior scrutiny.

l) Commissioner's and scrutiny members dealing with treasury management activities should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

m) Responsibility for these activities must be clearly defined within the organisation.

n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.

1.2 The management of day to day working capital (cash flow) including the requirement for temporary borrowing and/or investment will be monitored along with the limits noted below.

The Commissioner will adopt the following reporting arrangements in accordance with the requirements of the Code:

Area of Responsibility	Commissioner/ Committee/ Officer	Frequency
Treasury Management Policy & Strategy / Annual Investment Strategy	Commissioner with review delegated to Joint Independent Audit Committee	Annually before the start of the year
Annual Report	Commissioner with review delegated to Joint Independent Audit Committee	Annually by 30 September after the end of the year
Scrutiny of treasury management performance via mid-year report	Commissioner with review delegated to Joint Independent Audit Committee	Mid-Year
Scrutiny of treasury management strategy, policies and procedures	Joint Independent Audit Committee	Annually before the start of the year
Treasury Management Monitoring Reports, including any amendments to Treasury Management Practices	CFO	Monthly report, quarterly TM monitoring meeting

1.3 The Treasury Management Code covers the following prudential indicators:

- Authorised limit for external debt.
- Operational boundary for external debt.
- Actual external debt.
- Upper and lower limits to the maturity structure of borrowing.
- Upper limits to the total principal sums invested longer than 365 days.
- Gross debt and Capital Finance Requirement.
- Debt liability benchmark.

1.4 The draft prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators were approved by the Commissioner on 29 February 2024 as part of the Capital Strategy and Medium Term Financial Strategy (MTFS) 2024/25 to 2027/28 approval process.

1.5 In addition to the above indicators, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.6 The strategy covers:

a) Prospects for interest rates.

b) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.

c) The borrowing strategy.

d) Sensitivity forecast.

e) External and internal borrowing.

f) Debt rescheduling.

g) Policy on borrowing in advance of need.

h) The investment strategy.

i) The policy on the use of external service providers.

2. Prospects for Interest Rates

2.1 The table shown below outlines the Commissioner's view of anticipated movements in interest rates, based on guidance received from the Commissioner's treasury management advisers Link Group (as at 08/01/2024). A more detailed interest rate forecast is shown in Appendix 3.

(The PWLB rates shown below include a 20 basis point 'certainty rate' discount effective 01/11/2012)

	March 2024	June 2024	Sept 2024	Dec 2024	March 2025	June 2025	March 2026	March 2027
Bank Rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
5 yr PWLB*	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.60%	3.50%
10 yr PWLB	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	3.80%	3.70%
25 yr PWLB	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.20%	4.10%
50 yr PWLB	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.00%	3.90%

* (PWLB) Public Works Loan Board is a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB's function is to lend money to other prescribed public bodies.

The Link Group forecast for interest rates was updated on 8 January 2024.

At its 14 December 2023 meeting, the Bank of England's Monetary Policy Committee (MPC) kept rates on hold for the third time in a row, pushing back against the prospect of near-term interest rate cuts. The vote in favour of keeping rates on hold was 6-3.

However, recent softer wage and inflation data (annual CPI is currently 3.9%) mean that markets have moved significantly in the direction of Link's November interest rate forecast, pricing in a first rate cut in Q2 2024, a full quarter earlier than Link's own forecast which has only undergone a little fine-tuning . Link Group now expects Bank Rate to be cut to 4.25% by the end of 2024 (4.5% previously) and 3% by the end of 2025. The low point of the interest rate cycle is also expected to be 3%.

Regarding the Bank of England, it continued to sound hawkish In December. Indeed, the evidence of subsiding price pressures did not dissuade the more hawkish members of the Monetary Policy Committee (MPC) from again voting to raise interest rates by 25 basis points (bps). The MPC maintained its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it reiterated that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time".

At the time of the meeting, the Bank did not appear to have taken any comfort from subsiding price pressures in the US and the Eurozone either, saying that measures of inflation persistence are higher in the UK than in other major advanced economies. And its statement that relative to developments in the US and the Eurozone "measures of wage inflation were considerably higher in the UK and services price inflation had fallen back by less so far". Nonetheless, even if the Bank would prefer to cut interest rates after the Fed and the ECB, Capital Economics' forecast for the CPI measure of inflation to drop below 2% by April, and for core inflation to drop below 2% only three months later, further convinces Link Group that rates will be cut sharply in the second half of 2024 if not before.

Since the December rate decision, the Bank's hawkish bias has also not prevented the markets from forming a view that rates will be falling soon. Accordingly, swap rates and gilt yields have reduced significantly in January month despite a partial rebound upwards since the turn of the year.

Looking further afield, Link Group suspect the wider economy may only endure the lightest of recessions or, possibly, not at all. The Bank's November Quarterly Monetary Policy Report saw it revise down its Q3 and Q4 GDP forecasts for 2023 and its annual forecast for 2024 from 0.4% to 0.0% (2023 stayed at 0.5%). But it could be this outlook underestimates the robustness and resilience of the UK economy, particularly considering upward revisions to GDP stemming from the pandemic years.

There are, of course, significant risks to Link Group's central forecast. First, we are probably still in the early days of the Gaza-Israel conflict, and a meaningful and prolonged shift up in oil prices from $75 per barrel to something closer to $120 would keep inflation higher for longer. Furthermore, the UK domestic labour market is still having to contend with very low unemployment (4.2%) and the total number of job vacancies is only a little below one million. Even if Labour takes over the governmental reins in the next year or so, it is unlikely that a fundamental overhaul of immigration policy, with a view to addressing staff shortages in various sectors of the economy, is going to be a priority, so keeping a lid on wages is going to be a tough challenge even if some of the more recent signs are that wage growth is moderating (still c7% y/y).

Regarding PWLB rates, movement in the short part of the curve has reflected the revised Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, but by the market's appetite for significant gilt issuance. Indeed, although we have a slightly lower starting point for the envisaged reduction in short and medium dated gilts, we now forecast the 10, 25 and 50 years part of the curve to not fall quite as low as we thought in November.

Furthermore, a General Election is expected this year, so Government fiscal policy may potentially loosen at the same time as the Bank's monetary policy is still trying to take momentum out of the economy. That may mean that Bank Rate stays elevated for a little longer than Link Group's central forecast.

Of course, what happens outside of the UK remains critical to movement in gilt yields as well. The ECB has made it clear that policy tightening is at, or close to, the terminal rate (currently 4%), whilst the US FOMC has held its Bank Rate equivalent in the range of 5.25% - 5.5%.

From a practical standpoint If we are looking to borrow we will, most probably, need to continue to focus on borrowing temporarily from local authorities or with short-dated loans from the PWLB.

2.2 **Significant risks to the forecasts**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** increased Bank Rate too fast and too far over the past year, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks,** for example in Ukraine, The Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.
- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

2.3 **The balance of risks to the UK economy -** The overall balance of risks to economic growth in the UK is to the downside.

2.4 **Forecasts for Bank Rate**

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through 2024.

2.5 In summary, as there are so many variables at this time, Link Group have advised that caution must be exercised in respect of all interest rate forecasts.

Investment and Borrowing Rates

2.6 Investment returns have improved further during 2023/24 as the MPC progressively increases Bank Rate.

2.7 Borrowing rates have also been increasing as the Bank Rates have been increased.

2.8 On 25 November 2020 the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority/Commissioner which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

2.9 The policy of avoiding new borrowing by maximising the use of internal borrowing through reserves, has served the Commissioner well in recent years. However, this is subject to continuous review in order to avoid the risk of incurring higher borrowing costs in the future when new long-term borrowing to finance capital expenditure or refinance maturities is required. Link Group's advice is that whilst it's long-term (beyond 10 years) forecast for Bank Rate remains at 3% and as all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

3. Treasury Limits for 2024/25 to 2027/28 including Prudential Indicators

3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Commissioner to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires the Commissioner to calculate the budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Commissioner for the foreseeable future.

3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003**,** and supporting regulations, for the Commissioner to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.

3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing Commissioners to invest in capital projects without any limit as long as they are affordable, prudent and sustainable.

3.4 The Commissioner must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Commissioner to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is affordable.

3.5 To facilitate the decision making process and support capital investment decisions the Prudential Code and the Treasury Management Code requires the Commissioner to agree and monitor a minimum number of prudential indicators. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance.

3.6 The following indicator provides a debt related activity limit:

- Maturity structure of borrowing. These gross limits are set to reduce the Commissioner's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

3.7 The treasury limits and draft prudential indicators have been reviewed and updated and are attached at Appendix 4.

3.8 Minimum revenue provision (MRP): Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2024/25 is included in Appendix 4.

3.9 The CFO has systems in place to monitor the treasury limits and will report to the Commissioner instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

3.10 In addition to the prudential indicators noted above a new debt liability benchmark treasury indicator has been adopted since 2023/24 to support the financing risk management of the capital financing requirement (CFR). This is included in Appendix 4.

4. Borrowing Strategy

4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.

4.2 The main options available for the borrowing strategy for 2024/25 are PWLB loans and market loans. The interest rate applicable to either PWLB or markets loans can be fixed or variable.

4.3 The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent as investment returns have been lower than longer-term borrowing rates, and counterparty risk is still an issue that needs to be considered.

4.4 There are different types of market loans available, including variable and fixed interest rate loans. These loans are usually offered at an interest rate lower than the corresponding PWLB loan rate to try to encourage local authorities and other public sector bodies to use as an alternative to PWLB. They may only be attractive if they are forward starting i.e. to secure the rate at an earlier point than actually drawing down the funds to mitigate interest rate risk and avoid the cost of carry.

4.5 To mitigate variable interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing 2024/25. Whilst variable rate loans are permitted under the strategy, in practice, generally, the Commissioner maintains 100% of borrowing at fixed interest rates.

4.6 The main strategy is therefore:

- Consider the use of short term borrowing as a bridge until receipts are received.
- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate, where they become available.
- When PWLB rates fall back to or below Link Group trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.
- Consider the use of short term borrowings as a bridge whilst the market waits for inflation, and therein gilt yields, to drop back later in 2024.

4.7 In addition, reserve and fund balances may be utilised to limit the new external borrowing requirement, or to make early debt repayments, as an alternative to investing these resources. Reducing investment balances rather than increasing external borrowing could reduce interest payable, as short term rates on investments are likely to be lower than rates paid on external borrowing, and limit exposure to investment risk.

Sensitivity of the Forecast

4.8 The Commissioner, in conjunction with Link Group, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

- *If it was 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 or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. This is the most likely scenario in the current climate and based on the Link Group forecast for interest rates to 2027.
- *If it was 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding would be drawn if interest rates were thought to be lower than they were projected to be in the next few years.

4.9 Against this background, caution will be adopted in the management of the 2024/25 treasury operations. The CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Commissioner.

Interest Rate Exposure

4.10 Interest rate exposure is managed and monitored through the use of forward balance sheet analysis. This approach requires consideration of the level of the Commissioner's underlying borrowing requirement (CFR) compared to its actual external borrowing position, to ensure the Commissioner remains comfortable with the level of the interest payable budget subject to movements in interest rates. Borrowing decisions will be made with reference to the capital plans and core cash position of the Commissioner in association with both the interest rate forecast (section 2.1), and maturity profile of the current portfolio. Investment decisions will be made with reference to the core cash balances, cash flow requirements and the outlook for short-term interest rates.

External and Internal Borrowing

4.11 As at 31 January 2024 the Commissioner has net debt of £50.037m; this means that borrowing is currently higher than investments with total borrowing of £76.969m and investments of £26.932m.

4.12 The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. The Commissioner has set trigger rates for long term borrowing and when these rates are attained consideration will be given to long term borrowing. Any short term savings gained by deferring long term borrowing will be weighed against the re-financing risks associated with delaying unavoidable new borrowing to finance capital expenditure under the CFR requirements, and the impact on the maturity profile of the Commissioner's borrowing portfolio.

4.13 The CFO has examined the potential for undertaking early repayment of some external debt to the PWLB in order to benefit from lower interest rates currently available. The significant difference between early redemption rates and interest rates payable on PWLB debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by the PWLB.

Borrowing in advance of need

4.14 The Commissioner will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money. Specifically, there will be a clear link to the capital investment programme, which supports the decision to take funding in advance of need.

New financial institutions as a source of borrowing and / or types of borrowing

4.15 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

4.16 Treasury advisors, Link Group, will continue to provide advice as to the relative merits of each of these alternative funding sources.

5. Debt Rescheduling

5.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. Any rescheduling opportunities will be considered in line with procedures approved under the Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.

5.2 The reasons for any proposed rescheduling will include:

- The generation of cash savings at minimum risk.
- In order to amend the maturity profile and/or the balance of volatility in the Commissioner's borrowing portfolio.

5.3 The CFO in-line with delegated powers outlined in the approved Treasury Management Practice Statement will approve all debt rescheduling.

5.4 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

5.5 All rescheduling will be reported to Commissioner in the mid-year and annual reports.

6. Investment Strategy 2024/25 to 2027/28

Introduction

6.1 The Commissioner has regard to the DLUHC's Guidance on Local Government Investments and CIPFA's Code of Practice. The Commissioner must produce a strategy on an annual basis which covers the subsequent four year period.

6.2 This annual strategy maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below and in Appendix 5. The policy also ensures that it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These are detailed in Appendix 6.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

6.3 The Commissioner will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

6.4 Specified investments are denominated in Sterling, are for periods of 365 days or less and do not involve the acquisition of share or loan capital in any body corporate. Such an investment will be with either:

- The UK Government or a local authority, parish or community council, or
- A body or investment scheme which has been awarded a high credit rating by a credit rating agency.

6.5 Non-specified investments are deemed more risky and guidance on local government investments requires more detailed procedures. Such procedures are required in order to regulate prudent use and establish maximum amounts which may be invested in each category.

6.6 Both specified and non-specified investment types currently utilised by the Commissioner are detailed in Appendix 5, along with approved limits. In addition to these numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the options will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

6.7 All investments will be in Sterling.

6.8 The Commissioner's primary investment objective is the security of the capital investment. The Commissioner will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.

6.9 The borrowing of monies purely to invest is unlawful and the Commissioner will not engage in such activity.

Other Limits

6.10 The Police and Crime Commissioner will continue to use UK banks irrespective of the UK sovereign rating and will specify a minimum sovereign rating of AA+ for non-UK banks, as recommended by our advisors. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to, or deducted from, should ratings change in accordance with this policy.

Creditworthiness Policy

6.11 The creditworthiness service provided by Link Group is used to assess the creditworthiness of counterparties. The service provided by Link Group uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.12 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Commissioner to determine the duration for investments and are therefore referred to as durational bands. The Commissioner is satisfied that this service gives the required level of security for its investments. It is also a service which the Commissioner would not be able to replicate using in-house resources.

6.13 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information, information on government support for banks and the credit ratings of the government support.

6.14 The Commissioner has also determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment. These "high" ratings allow investments to be classified as **specified investments,** where they are sterling denominated and of 365 days or less. The Commissioner's approved limits for the "high" credit rating for deposit takers are as follows:

High Rated	Fitch	Moody's	Standard & Poor's
Short term (Ability to repay short term debt)	F1+	P-1	A-1+
Long term (Ability to repay long term debt)	AA-	Aa3	AA-
MMF Rating	AAAmmf	AAA-mf	AAAm

6.15 To ensure consistency in monitoring credit ratings throughout 2024/25 the Commissioner will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties, as the credit rating agency issuing the lowest rating could change throughout the year as agencies review the ratings that they have applied to countries, financial institutions and financial products. The ratings of all three agencies will be considered, with Fitch being used as a basis for inclusion on the lending list. In addition to this the Link Group creditworthiness service will be used to determine the duration that deposits can be placed for. This service uses the ratings from all three agencies, but by using a scoring system, does not give undue consideration to just one agency's ratings.

6.16 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Group weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.

6.17 UK Government nationalised/part nationalised banks will have a maximum limit of 25% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £20m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.

6.18 Where more than one counterpart, from a group, is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.

6.19 A number of counterparties are also approved by the CFO for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the CFO prior to investments being placed.

Nationalised/Part Nationalised Banks

6.20 Where the bank has not been fully nationalised but receives substantial support from the UK Government (greater than 40% ownership) the individual rating of the bank will not be taken into consideration and the relevant banks will be included on the Commissioner's lending list as prescribed by the Link Group creditworthiness list as detailed in 6.12.

Foreign Banks

6.21 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list. They must also meet the high rated lending criteria and have operations based in the UK. Limits will be prescribed by the creditworthiness list and limited to 365 days or less. Each non-UK country will be limited to the maximum investment limit of £20m or 20% of the Commissioner's total investments. A list of those countries with a minimum sovereign rating of AA+ is set out in Appendix 7.

Local Authorities

6.22 The Commissioner invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis, prior to funds being placed. Limits are detailed at Appendix 6.

Non-specified Investments

6.23 In addition to the above specified investments, the Commissioner has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are set out in the following table:

Non High Rated	Fitch	Moody's	Standard & Poor's

Short term	F1	P1	A1
Long term	A-	A3	A-

Limits for non-high rated counterparties are detailed at Appendix 6.

6.24 The Commissioner has also set appropriate limits for non-specified investments with "high" rated deposit takers and UK Local Authorities where investments can be out to a maximum of 3 years. The Commissioner's approved limits for the "high" credit rating for deposit takers are set out at 6.15 above and investment limits are detailed at Appendix 6.

6.25 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. In addition, the Commissioner has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Group creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Group.
- If counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Commissioner's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Commissioner's criteria, its inclusion will be considered for approval by the CFO.

6.26 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information on government support for banks and the credit ratings of government support.

Investment Balances / Liquidity of investments

6.27 The Commissioner deposits funds beyond 365 days to a maximum of three years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.28 Deposits for periods longer than 365 days are classed as **non-specified investments.**

Investments defined as capital expenditure

6.29 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as '**non-specified' investments**.

6.30 A loan or grant by the Commissioner to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Commissioner. It is therefore important for the Commissioner to clearly identify if the loan was made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Commissioner for 'specified' and 'non-specified' investments.

Internal Investment Strategy

6.31 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.

6.32 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

6.33 The Commissioner takes the view that bank rate will remain at 5.25% for March 2024. Bank Rate forecasts for financial year ends (March) are therefore:

- 2023/24 5.25%
- 2024/25 3.75%
- 2025/26 3.00%
- 2026/27 3.00%

6.34 Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

6.35 The Commissioner will use an investment benchmark to assess the investment performance of its investment portfolio. Up to the 31 December 2021 it has been benchmarked against the 7 day LIBID. The CFO is appreciative that the provision of LIBOR and associated LIBID rates ceased at the end of 2021. Link group have advised that a suitable replacement investment benchmark would be a SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. The Sonia rate advised by Link group is 30 day Backward SONIA rate. Accordingly the commissioner will use an investment benchmark to assess the investment performance of its investment portfolio with reference to the SONIA. Link Group also provide a quarterly Investment Benchmarking report that assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across other similar Authorities.

End of year investment report

6.36 By the end of September each year the Commissioner will receive a report on investment activity as part of its annual treasury report, following scrutiny of that report by the Joint Independent Audit Committee.

Policy on use of external service providers

6.37 The Commissioner uses Link Group as its external treasury management advisers.

6.38 The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

6.39 The Commissioner recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of appointment of any such service provider, and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation

6.40 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed below:

Commissioner

- Set and approve treasury management policy and strategy prior to the start of each financial year.
- Approve prudential and treasury indicators and any subsequent amendments if required.
- Agree and approve annual treasury management budgets.
- Approve any proposed variations in treasury strategy or policy.
- Agree annual report.
- Monitor Prudential and Treasury Indicators.
- Receive and review monitoring reports including the annual report and act on recommendations.

Joint Independent Audit Committee

- Scrutinise the treasury management strategy, policies and practices and make recommendations to the Commissioner.
- Receive, scrutinise, and approve mid-year monitoring report and annual report.

Role of the Section 151 Officer (Chief Finance Officer)

As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.

- Submitting treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

Interest Rate Forecasts 2024 to 2027 **Appendix 3**

PWLB rates set out in the table below have taken into account the 20 basis point certainty rate reduction.

Link Group Interest Rate View 08.01.24						(The Capital Economics forecasts were done 05.01.24)							
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Bank Rate													
Link	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Capital Economics	5.25	5.00	4.50	4.00	3.50	3.00	3.00	3.00	-	-	-	-	-
5 yr PWLB													
Link	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.70	3.60	3.60	3.70	3.70
Capital Economics	4.50	4.30	4.20	4.00	3.90	3.80	3.80	3.70	-	-	-	-	-
10 yr PWLB													
Link	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.90	3.80	3.70	3.70	3.70
Capital Economics	4.50	4.40	4.20	4.10	4.10	4.10	4.10	4.10	-	-	-	-	-
25 yr PWLB													
Link	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
Capital Economics	5.10	4.80	4.60	4.30	4.40	4.40	4.50	4.60	-	-	-	-	-
50 yr PWLB													
Link	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90
Capital Economics	4.70	4.60	4.50	4.30	4.30	4.30	4.40	4.40	-	-	-	-	-

Appendix 4

Prudential Indicators – Treasury Management

Prudential Indicators

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

Authorised Limit for External Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

Authorised Limit - this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Operational Boundary - this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the Commissioner. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Authorised Limit for External Debt

Authorised Limit	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Borrowing	180,000	190,000	190,000	200,000
Other Long Term Liabilities	0	0	0	0
Total	180,000	190,000	190,000	200,000

Operational Boundary for External Debt

Operational Boundary	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Borrowing	160,000	170,000	170,000	180,000
Other Long Term Liabilities	0	0	0	0
Total	160,000	170,000	170,000	180,000

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2027/28.

Upper and Lower Limits for the Maturity Structure of Borrowing

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

Maturity structure of borrowing – these gross limits are set to reduce the Commissioner's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. The limits do however cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

Maturity Structure	Upper Limit	Lower Limit
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%

Upper Limit on Principal Amounts Invested Beyond 365 Days

The purpose of the upper limit on principal amounts invested beyond 365 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

Upper limit on principal amounts invested beyond 365 days	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Gross Debt and CFR	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Forecast Borrowing as at 31 March	101,871	120,854	126,694	146,098
Capital Financing Requirement as at 31 March	126,434	138,763	140,256	150,544
Amount of Borrowing (over) / under CFR	24,563	17,909	13,562	4,446

Forecast borrowing is within the CFR estimates for 2024/25 to 2027/28.

Affordability

The impact of the capital programme on the revenue budget is shown in the table below:

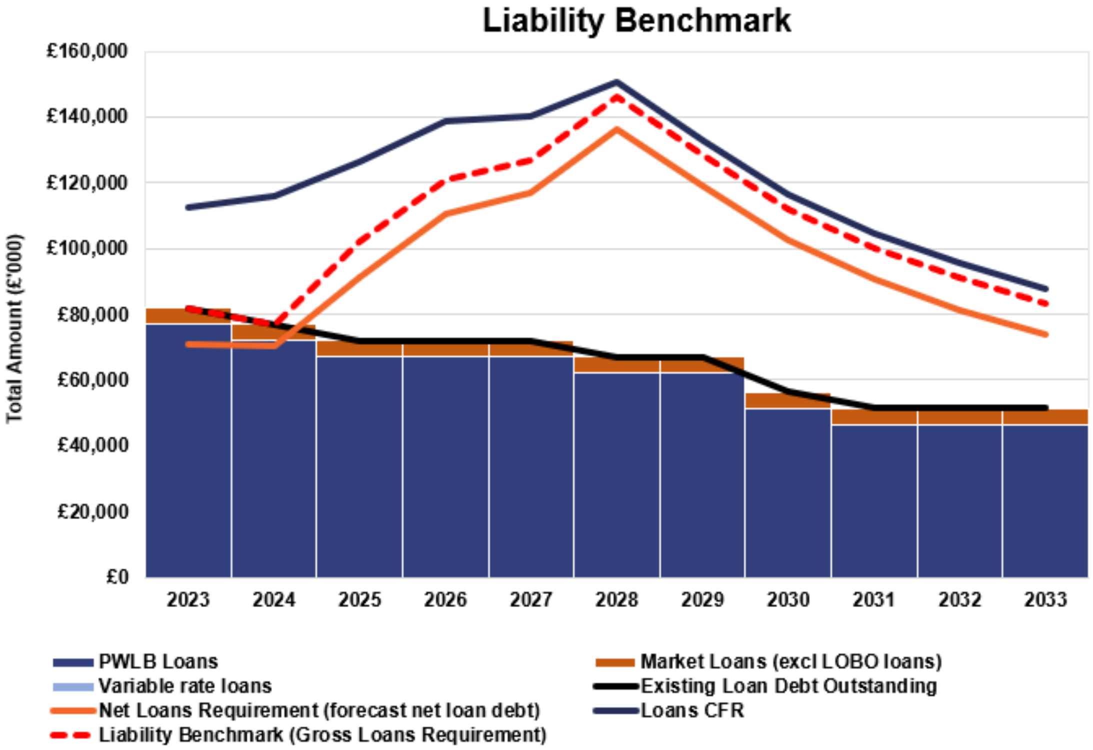
Gross Debt and CFR	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Revenue Budget	379,464	385,700	396,000	406,300
Capital Expenditure	29,940	29,166	15,032	28,443
Capital Financing Requirement as at 31 March	126,434	138,763	140,256	150,544
Interest Cost	3,454	3,877	3,867	4,297
Minimum Revenue Provision (MRP)	11,174	12,182	13,539	15,555
Revenue Financing Costs	14,628	16,059	17,406	19,852
Ratio of Financing Costs to Revenue Stream %	3.85%	4.16%	4.40%	4.89%

Debt Liability Benchmark

In addition to the prudential indicators set out above a new debt liability benchmark treasury indicator has been adopted in 2024/25 to support the financing risk management of the capital financing requirement (CFR).

The liability benchmark is presented as a chart which sets out the following:

- **Existing Loan Debt Outstanding** – this is the profile of the Commissioners existing loans which takes into account the scheduled loan repayments due within the period.
- **The Loans CFR (Capital Financing Requirement)** – this is the total requirement that the Commissioner has for prudential borrowing to support capital expenditure. This includes the CFR as at the last year-end plus approved future borrowing for planned capital expenditure within the existing MTFS capital programme and less those amounts due to be set aside under the MRP (Minimum Revenue Provision) policy adopted by the Commissioner.
- **Net Loans Requirement** – this is a forecast of the Commissioner's net loan debt, i.e. net of investments for treasury management purposes.
- **Gross Loans Requirement** – this is the Liability Benchmark and represents a forecast of the level of gross loans debt the Commissioner will require in accordance with budget plans.



The chart shows that the Commissioner's existing loan debt comprises mainly PWLB debt plus a smaller element attributable to market loans. The Commissioner has no variable rate loans.

The Liability Benchmark chart demonstrates a requirement for new borrowing to be taken over the period commencing with the 2024/25 financial year. Whilst the approach to borrowing remains to maximise the use of internal borrowing, the chart demonstrates that the extent to which internal borrowing can be used as a temporary financing tool will reduce over the medium to longer term as reserve balances reduce in-line with budget plans under the Commissioner's Medium Term Financial Strategy (MTFS).

Minimum Revenue Provision (MRP) Statement 2024/25

The MRP charge for 2024/25 for capital expenditure incurred before 01 April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at a minimum of 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the year after the asset becomes operational.

Appendix 5

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expenditure	Circumstance of use	Maximum period
Term deposits with the UK Government (DMO) or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. *See section 6*	No	In-house	365 days
Term deposits / Certificates of Deposit with credit rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating *See section 6*	No	In-house	365 days
Money Market Funds (CNAV & LVNAV *(not VNAV)* These funds are instant access and therefore do not have a maturity date.	No	Yes	Secure AAA Money Market Fund rating with assets > £1bn	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits / Certificates of Deposit with rated deposit takers (banks and building societies) which do not meet the Commissioner's "high" credit rating	(A) To improve ability to place smaller amounts. (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Fitch Long term A- Short term F1*	No	In-house	75%	6 months (But set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	20%	3 years

Appendix 6

Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount	Max Period	Not to Exceed Limit or %
High Rated (Specified Investments – High rated and up to 365 days see Appendix 5) Foreign Banks	Minimum Fitch rating of F1+ short term and AA- long term. Consideration to be given to Moody's minimum rating of P-1 short term backed by Aa3 long term and S&P minimum rating of A-1+ short term and AA- long term. Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m £20m country limit	3 years 365 days	25% (Government Backed) 20% (Non-Government Backed) 20%
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Consideration to be given to Moody's minimum rating of P-1 short term backed by A3 long term and S&P minimum rating of A-1 short term and A- long term.	£10m	6 months	20%
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years	n/a
Money Market Funds	CNAV or LVNAV ***(not VNAV)*** AAA Money Market Fund rating with assets >£1bn	£10m per counter party	Overnight	£25m in total

Appendix 7

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA+ or higher, (we show the lowest rating from Fitch, Moody's, and S&P) and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Link Group currently suggests a minimum rating of AA-

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

For information

AA-

- **U.K.**

THIS LIST IS AS AT 09.01.24