APPENDIX D

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Police and Crime Commissioner for Lincolnshire
2013/14

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1 INTRODUCTION

1.1 Background

The Police and Crime Commisssioner (PCC) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure that the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet PCC risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the PCC'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 Reporting requirements

The PCC is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update the PCC with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the PCC. This role is undertaken by the Resources Governance meeting.

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that those with responsibility for treasury management and its scrutiny receive adequate training in treasury management. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The OPCC uses Sector as its external treasury management advisors.

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2013/14 – 2015/16

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators and targets, which are designed to demonstrate that capital spending, and its funding by long term borrowing, is prudent, affordable and sustainable.

2.1 Capital expenditure

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The PCC is asked to approve the capital expenditure forecasts:

Capital expenditure £000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Building Schemes	2,392	1,682	1,010	5,230
Business Transformation	-	8,643	3,133	-
ICT Schemes	664	1,080	764	500
Other Replacements	-	95	270	-
Vehicles	1,188	1,000	1,000	1,350
Total	**4,244**	**12,500**	**6,177**	**7,080**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need

Capital expenditure £000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total	4,244	12,500	6,177	7,080
Financed by:				
Capital receipts	-	(1,728)	-	-
Capital grants	(792)	(1,256)	(1,159)	(895)
Revenue	(412)	(116)	(375)	(100)
Net financing need for the year	**3,040**	**9,400**	**4,643**	**6,085**

2.2 The PCC's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

£000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total CFR	**20,108**	**27,755**	**29,766**	**33,062**
Movement in CFR	**1,073**	**7,647**	**2,011**	**3,296**

Net financing need for the year (above)	3,040	9,400	4,643	6,085
Less MRP/VRP and other financing movements	(1,967)	(1,753)	(2,632)	(2,789)
Movement in CFR	**1,073**	**7,647**	**2,011**	**3,296**

2.3 Minimum revenue provision (MRP) policy statement

There is a statutory requirement to make an annual charge in revenue spending – a minimum revenue provision (MRP). The aim is to ensure that debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits.

The PCC is required to approve **an MRP Statement** in advance of each year. A variety of options are provided to PCCs, so long as there is a prudent provision. The PCC is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR;

This provides for an approximate 4% reduction in the borrowing need each year.

From 1 April 2008 for all unsupported borrowing the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets;

This is a prudent approach providing for a reduction in the borrowing need over approximately the asset's life. It is possible to undertake additional voluntary payments if required (voluntary revenue provision – VRP). However, having regard to affordability,it is proposed that debt is repaid at the Minimum Revenue Provision level.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The PCC is asked to approve the following indicators:

2.5 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Financing costs to net revenue stream	2.32	2.18	3.38	3.94

The estimates of financing costs include current commitments and the proposals in this budget report.

2.6 Incremental impact of capital investment decisions on PCC tax.

This indicator identifies the revenue costs associated with the three year capital programme recommended in this budget report compared to the PCC's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D PCC tax

£	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
PCC tax - band D	1.10	(0.79)	5.43	2.91

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the PCC. The treasury management function ensures that the PCC's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The PCC's treasury portfolio position at 31 March 2012, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Debt at 1 April	19,179	20,253	18,499	20,510
Expected change in Debt	1,074	(1,754)	2,011	3,296
Actual debt at 31 March	**20,253**	**18,499**	**20,510**	**23,806**
The Capital Financing Requirement	**20,108**	**27,755**	**29,766**	**33,062**
Under / (over) borrowing	**(145)**	**9,256**	**9,256**	**9,256**
Investments	**19,000**	**9,000**	**7,500**	**7,500**
Investment change	-	(10,000)	(1,500)	-
Net Debt	**1,253**	**9,499**	**13,010**	**16,306**

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well defined limits. One of these is that the PCC needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the PCC complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The 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 CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £000s	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Debt	30,000	34,000	38,000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. 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.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised.
2. The PCC is asked to approve the following authorised limit:

Authorised limit £000s	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Debt	32,000	36,000	40,000

3.3 Prospects for interest rates

The PCC has appointed Sector as its treasury advisor and part of their service is to assist the PCC to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general uncertainty about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The PCC is currently maintaining a position where the capital borrowing need (the Capital Financing Requirement), is being matched with loan debt. An under-borrowed position would be acceptable as cash supporting the PCC's reserves, balances and cash flow would be used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- 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.

- 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 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.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

The PCC is able to borrow at advantageous rates from the Public Works Loans Board (PWLB) and all projected future borrowings, to finance the capital programme, are anticipated to be from this source.

Borrowing is undertaken at a time appropriate to coincide with an identified dip in borrowing rates available and as long term borrowing rates have been falling and cashflows have remained strong, no new external borrowing has yet been taken in 2012/13. Projections are likely to allow borrowings to be avoided in 2012/13.

The objective is to achieve a debt maturity profile, which ensures that no one year has a high level of repayments. This is a requirement under the Prudential Borrowing Guidelines.

Current loan terms match the life of the asset they are financing. Future loans to be considered for the most appropriate loan length, ensuring compliance with prudential indicators.

All current loans have been taken on the basis of equal instalment of principal (EIP), which ensures payments are spread evenly across the term of the loan. Future strategies to include the comparison and consideration of other available repayment bases.

Apart from the transferred borrowing, (which is based on a share of the average amount of interest paid on all Lincolnshire County Council debt) all long term debt is at fixed rates of interest. Consideration has been given to the possible restructuring of the loans outstanding in order to take advantage of lower interest rates. However, the indications are that savings through lower interest rates would be offset by significant penalties for early termination of some of the loans.

Treasury management limits on activity

There are three debt related treasury activity limits. 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. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The PCC is asked to approve the following treasury indicators and limits:

	2013/14	2014/15	2015/16
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity structure of fixed interest rate borrowing 2013/14			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	30%
5 years to 10 years		0%	35%
10 years and above		10%	35%
Maturity structure of variable interest rate borrowing 2013/14			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	30%
5 years to 10 years		0%	35%
10 years and above		10%	35%

3.5 Policy on borrowing in advance of need

The PCC 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Resources Governance meeting, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The PCC's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The PCC's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the PCC has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the PCC's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the PCC will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. There will be no non-specified investments.

The criteria below are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
<u>Specified Investments</u>			
DMADF – UK Government	N/A	100%	1 year
Money market funds	AAA	£4m each	1 year
Local authorities	N/A	£4m each	1 year
Term deposits with banks and building societies	See paragraph 4.2	£4m each	See paragraph 4.2

4.2 Creditworthiness policy

This PCC applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the suggested duration for investments. The PCC will therefore use counterparties within the following durational bands:

- Yellow/Purple/Blue 1 year
- Orange 6 months
- Red 6 months
- Green 3 months
- No colour not to be used

The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the PCC use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored.The PCC is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the PCC will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the PCC's lending list.

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

4.3 Diversifying Investment

The PCC shall avoid a concentration of investments in too few counterparties or countries, with a suitable spreading approach likely to be sufficient given the safeguards already built into its creditworthiness service of Sector.

Investments with any group of financial institutions will not exceed £4m at any one time.

4.4 Country limits

The PCC has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown below:

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The UK has recently had its AAA sovereign rating down graded to AA1 by one of the ratings agencies. The UK will be excluded from the above criteria as a result of sovereign downgrade, so as to ensure continuity of being able to invest in UK banks. Further changes in the UK sovereign rating will trigger a review.

4.5 Investment strategy

In-house funds. 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.75%
- 2015/16 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

Interest earned on investments will reflect the Bank Rate forecasts.

The PCC is asked to approve the budget for investment earnings:

£000s	2013/14	2014/15
Investment earnings	(100)	(100)

Investment treasury indicator and limit - total principal funds invested for greater than 364 days.

The PCC is asked to approve the treasury indicator and limit: -

£m	2013/14	2014/15
Principal sums invested > 364 days	£m Nil	£m Nil

For its cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts and the UK Government Debt Management Office.

4.6 End of year investment report

There will be an end of year report on investment activity as part of the Annual Treasury Report.

5 Appendices

5.1 Summary of prudential indicators and targets

5.2 Treasury management scheme of consent