APPENDIX A

Treasury Management Strategy Statement 2024/25

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Police and Crime Commissioner for Lincolnshire

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1. INTRODUCTION

1.1. Background

The 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, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

The contribution the treasury management function makes to the PCC is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the PCC's borrowing, 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."*

The PCC's Chief Financial Officer is the financial adviser to the PCC as required under the Police Reform and Social Responsibility Act 2011 and has statutory responsibility to manage their financial affairs as set out in sections 112 and 114 of the Local Government Finance Act 1988, and the Accounts and Audit Regulations 2015.

For Treasury Management this includes:

- Ensuring regularity, propriety and Value for Money (VfM) in the use of public funds;
- Advising the PCC on the robustness of the estimates and the adequacy of financial reserves;
- Securing the treasury management function, including loans and investments;
- Advising, in consultation with the Chief Executive on the safeguarding of assets, including risk management and insurance.

1.2. Reporting requirements

1.2.1. Capital Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require the PCC to prepare a capital strategy report, which will provide 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.

The aim of this capital strategy is to ensure that the PCC understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The PCC has not engaged in any commercial investments and does not hold any non-treasury investments.

1.2.2. Treasury Management reporting

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

a) **Prudential and treasury indicators and treasury strategy (this report)**

The first and most important report is forward looking and 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).

b) **A mid-year treasury management report**

This is primarily a progress report and will update the PCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report**

This is a backward-looking review document and 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 require adequate scrutiny before recommendation to the PCC. This role is fulfilled by the Joint Independent Audit Committee (JIAC) and the attendees of the Police and Crime Strategy Board (PCSB).

Quarterly reports

In addition to the three major reports detailed above, from 2024/25 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to JIAC but do require to be adequately scrutinised. This role is undertaken by the PCSB. (The reports, specifically, should comprise updated Treasury/Prudential Indicators).

1.3. Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

a) **Capital issues**

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

b) **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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

In accordance with the CIPFA Code and DLUHC Guidance, a revised Treasury Management Strategy Statement can be approved by the Police and Crime Commissioner and implemented at any time during the financial year.

1.4. Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that employees with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Finance. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Head of Finance.

1.5. Treasury management consultants

The PCC uses Link Group, Link Treasury Services Limited 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 the services of our external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our treasury advisers.

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 PCC 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 2024/25 – 2027/28 AND MINIMUM REVENUE PROVISION (MRP) STATEMENT

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist the PCC's overview and confirm capital expenditure plans are prudent, affordable and sustainable.

2.1. Capital expenditure and financing

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	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Building Schemes	1,279	1,488	3,181	1,600	1,600	1,600
Command & Control	1,647	596	2,078	-	-	-
Digital Data and Technology	1,239	2,897	7,178	1,981	2,341	468
Vehicles	1,065	2,027	3,219	2,036	1,556	1,319
ESMCP	148	55	-	4,176	-	-
Equipment Replacement	348	387	250	250	250	250
Other	31	718	420	150	-	-
Total	**5,757**	**8,168**	**16,326**	**10,193**	**5,747**	**3,637**

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

Financing of Capital Expenditure	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Grants	173	130	297	170	-	-
Capital Receipts	90	60	3,320	70	70	70
Partner Funding	-	718	-	-	-	-
DRF	-	36	-	-	-	-
Revenue Funding	205	-	-	-	-	-
Net financing need for the year	**5,289**	**7,224**	**12,709**	**9,953**	**5,677**	**3,567**

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 indebtedness and so the underlying borrowing need. Any new capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the PCC borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the PCC is not required to separately borrow for these schemes. The PCC currently doesn't have any such schemes within the forecasted CFR.

The PCC is asked to approve the CFR projections below:

Capital Financing Requirement	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
CFR Opening Balance	40,941	43,172	46,804	53,572	57,727	56,319
Movement in CFR	2,231	3,632	6,767	4,155	(1,409)	(3,676)
Total CFR	**43,172**	**46,804**	**53,572**	**57,727**	**56,319**	**52,643**

Movement in CFR represented by:						
Net financing need for the year (above)	5,289	7,224	12,709	9,953	5,677	3,567
Less MRP and other financing movements	3,059	3,592	5,942	5,798	7,086	7,243
Movement in CFR	**2,230**	**3,632**	**6,767**	**4,155**	**(1,409)**	**(3,676)**

2.3. Liability Benchmark

The PCC is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

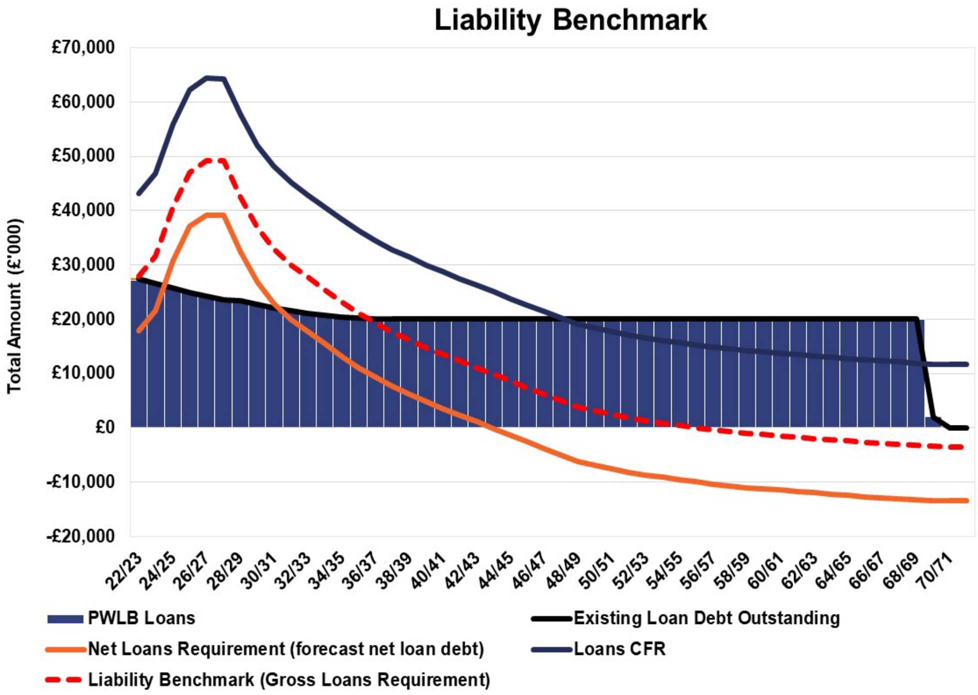
There are four components to the LB: -

1. **Existing loan debt outstanding**: the PCC's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

It should be noted that only planned prudential borrowing for approval is included hence why the loans CFR peaks after four years. All other inputs are projected forward to cover the full debt maturity profile.

3. **Net loans requirement**: this will show the PCC's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



Any years where actual loans are less than the benchmark indicate a future borrowing requirement whereas any years where actual loans outstanding exceed the benchmark represent an overborrowed position resulting in excess cash for investment. See section 4 below.

2.4. Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances. The estimates are predicated upon the PCC's current financial plans and following the strategy in this document.

Year-end Resources	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Fund balances/Reserves	34,805	34,238	23,653	23,295	23,285	23,285
Provisions	890	890	890	890	890	890
Annual Cash Flow Adjustment	-	6,000	4,500	3,500	2,500	-
Total Core Funds	**35,695**	**41,128**	**29,043**	**27,685**	**26,675**	**24,175**
Working Capital*	(10,214)	(10,214)	(10,214)	(10,214)	(10,214)	(10,214)
Under Borrowing	(15,699)	(20,213)	(16,833)	(15,281)	(14,589)	(11,604)
Expected investments	**9,782**	**10,700**	**1,996**	**2,190**	**1,871**	**2,356**

*Working capital balances shown are estimated year-end; these will fluctuate throughout the year.

Please note that actual figures for 2022/23 for all tables include regional figures and are therefore as stated in the Financial Statements for 2022/23.

An adjustment has been included in respect of surplus cash flow that allows the forecasted borrowing figure to be flexed – see section 3.1 below. Note that this surplus is only available in the short term; it is assumed that from 2024/25 the PCC will undertake some borrowing to support the forecasted capital programme in conjunction with the surplus.

The majority of significant funding streams are received on a monthly basis, with the exception of the Home Office pension top up grant which is received annually in July.

2.5. Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the PCC has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The PCC is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

Minimum Revenue Provision (MRP) is therefore an annual charge made to the revenue account which reflects the minimum amount set aside to pay off capital expenditure.

The DLHUC is also finalising a consultation on amending MRP regulations/guidance for England. The latest information is that any changes will take effect from 2024/25 at the earliest. The PCC will comply with the MRP regulations and any changes that are forthcoming after the finalisation of the consultation as per the Code. The PCC does not either use capital receipts to reduce the MRP or to exclude any debt from the capital financing requirement calculation.

In addition, The PCC is also able to make additional voluntary payments, know as Voluntary Revenue Provision (VRP). The PCC for Lincolnshire has not made any VRP payments to date and is not planning to make any VRP in the foreseeable future. This will be reviewed each year.

In guidance issued under section 21(1A) of the Local Government Act 2003, the Secretary of State recommends that before the start of each financial year, a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council or equivalent level for approval. In our case that is the PCC.

The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the PCC can use any other reasonable basis that it can justify to calculate a prudent level of MRP.

The four MRP options available are:

- Option 1: 4% reducing balance – Regulatory Method (also known as the Existing Practice method)
- Option 2: 4% reducing balance – CFR Method
- **Option 3: Asset Life Method (Straight line)**
- Option 4: Asset Life Method (Annuity)

Options 1 and 2 were intended only for Government-supported borrowing and these options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

Options 3 and 4 were meant to be used for all self-financed borrowing.

The Asset Life method (straight line) has been adopted by the PCC. This method provides for debt repayment over the life of the asset that has been funded from the borrowing.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or the year after the asset becomes operational.

The PCC will apply the asset life method for any expenditure capitalised under a Capitalisation Direction (where the Government permits local authorities to treat revenue costs as capital costs).

MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to principal element of the annual repayment.

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

The revised DLUHC MRP Guidance (2018) widened the scope to include non-financial/non-treasury investments and to limit the scope of some of the recent MRP policy approaches. These changes do not have any impact on the PCC's MRP calculations or current approach.

The PCC is recommended to approve the following MRP:

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** (Option 2)**.** MRP will be based on the outstanding CFR. MRP is calculated on a 4% reducing balance basis.

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

- **Asset life method** (Option 3)**.** MRP will be based on the estimated life of the assets, in accordance with the regulations, however it does not need to reflect the same asset life as the asset policy recommends as long as the decision to vary this is prudent.

This option provides for a reduction in the borrowing need over approximately the asset's life.

The MRP Statement to 2027/28

MRP Statement	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual £'000	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**
Total MRP	**3,059**	**3,592**	**5,942**	**5,798**	**7,086**	**7,243**

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 relevant professional codes, so that sufficient cash is available to meet this service activity and the PCC's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate 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 overall treasury management portfolio as at 31 March 2023 and for the position as at 31 Dec 2023 are shown below for both borrowing and investments:

Treasury Portfolio **£000**	**Mar-23** **Actual**	**Mar-23** **Actual as %**	**Dec-23** **Current**	**Dec-23** **Current as %**
Banks	-	-	-	0%
DMAF	5,500	58%	12,725	48%
Money Market Funds	4,000	42%	14,000	52%
Total treasury investments (managed in house)	**9,500**	**100%**	**26,725**	**100%**
PWLB	27,076	99%	26,500	99%
SALIX	222	1%	147	1%
Total external borrowing	**27,298**	**100%**	**26,647**	**100%**
Net treasury investments / (borrowing)	**(17,798)**		**78**	

There is a greater temporary cash surplus at December 2023 compared with March 2023 partly due to the receipt of the pension grant from the Home Office in July 2023.

The PCC's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Borrowing	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Debt at 1 April	28,385	27,473	26,591	36,739	42,446	41,729
New Loans	-	-	11,000	6,500	-	-
Repayments	912	882	852	793	717	690
Actual Gross Debt at 31 March exc Finance Lease	**27,473**	**26,591**	**36,739**	**42,446**	**41,729**	**41,039**
Finance Lease Liability	-	-	-	-	-	-
Actual Gross Debt at 31 March	**27,473**	**26,591**	**36,739**	**42,446**	**41,729**	**41,039**
The Capital Financing Requirement	43,172	46,804	53,572	57,727	56,319	52,643
Under / (Over borrowing)	15,699	20,213	16,833	15,281	14,589	11,604

Within the range of prudential indicators there are a number of key indicators to ensure that the PCC's activities operate within well-defined limits. One of these is that the PCC needs to ensure that its gross debt 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 2024/25 and the following three financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative 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 and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	2022/23	2023/24	2024/25	2025/26	2026/27	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Debt	**44**	**47**	**54**	**58**	**57**	**53**

The authorised limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal 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.

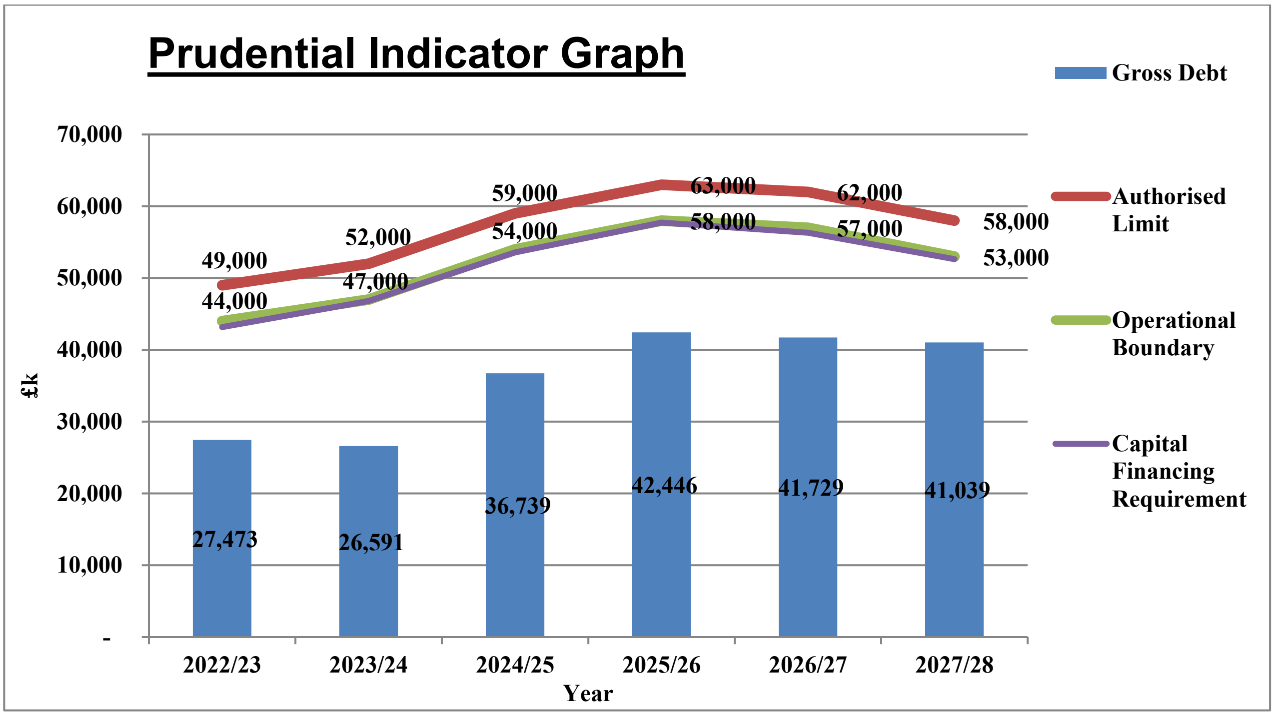
- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised;
- The PCC is asked to approve the following authorised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

Authorised Limit £m	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Debt	49	52	59	63	62	58

IFRS16 - Leasing

Compulsory adoption of IFRS16 is required from 2024/25 which means that leases which were previously off-balance sheet will be required to be brought onto the balance sheet at 31 March 2024. This will affect the CFR, external debt (other long-term liabilities), the Authorised Limit and Operational Boundary. It is not yet possible to be precise about such adjustment figures until detailed data gathering has been substantially completed later in the year. Therefore, limits may need to be amended once the detailed impact is known. Preliminary work carried out suggests there will be minimal impact for the PCC.

The following graph shows the prudential indicator projections of CFR and borrowing:



3.3. Prospects for interest rates

The PCC has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	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	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
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	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
50 yr PWLB	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

Additional notes by Link on this forecast table: -

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **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** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- 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.

LINK GROUP FORECASTS

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%.

Gilt yields and PWLB rates

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

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. 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.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4. Borrowing strategy

The PCC 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 PCC'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. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it were felt that there is a significant risk of a sharp FALL in borrowing rates, then fixed rate borrowing will be postponed.
- if it were felt that there is a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be presented to the PCC before any decisions are made.

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

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

3.7. New financial institutions as a source of borrowing

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 out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of 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).
- Government Departments (to include SALIX).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8. Maturity structure of borrowing

These gross limits are set to reduce the Authority’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: -

Maturity structure of fixed interest rate borrowing 2024/25	Actual 2022/23	Upper	Lower
Under 12 months	4%	20%	0%
12 months and within 24 months	3%	30%	0%
24 months and within 5 years	8%	40%	0%
5 years and within 10 years	10%	50%	0%
10 years and above	75%	80%	0%

3.9. 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 Authority's overall finances. The Authority is asked to approve the following indicators: -

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.

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Ratio of financing costs to net revenue stream %	**2.68**	**2.92**	**3.48**	**4.59**	**5.48**	**5.56**

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

4. ANNUAL INVESTMENT STRATEGY

4.1. Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) 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, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy (a separate report).

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The PCC has to have regard to these Codes of Practice when it prepares the TMSS and Annual Investment Strategy. This report fully meets those requirements.

The revised Treasury Management code requires an authority (which includes policing bodies) to implement the following:

- **Adopt a debt liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart from for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- **Long term treasury investments** (including pooled funds) are to be classed as commercial investments unless justified by a cash flow business case;
- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function to be proportionate to the size and complexity of the treasury management conducted;
- **Reporting is to be done quarterly**, to include prudential indicators. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be take to the PCC and should be reported as part of the PCC's revenue, capital and balance sheet monitoring;
- Environmental, social and governance (ESG) issues to be addressed within the PCC's treasury management policies and practices *(this area is under further development by CIPFA)*.

The PCC's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The PCC's investment priorities will firstly be security, secondly portfolio liquidity and then yield (return). The PCC will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the PCC's risk appetite.

In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the PCC will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. The PCC has adopted a prudent approach in managing risk and defines his risk appetite by the following means:

a) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings;

b) **Ratings** will not be the sole determinant of the quality of an institution. 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 achieve this consideration 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;

c) **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;

d) The PCC has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are under the categories of 'specified' and 'non-specified' investments;

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year;
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

e) **Non-specified investments limit.** The PCC has determined that a limit of 0% will be applied to the use of non-specified investments;

f) **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2;

g) **Transaction limits** are set for each type of investment (see paragraph 4.2);

h) The PCC will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4);

i) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3);

j) The PCC has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year;

k) All investments will be denominated in **sterling**;

l) As a result of the change in accounting standards for 2022/23 under **IFRS 9 – *Financial Instruments***, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the override to 31 March 2025 has been agreed by Government).

m) **IFRS16 – *Leasing***. The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1 April 2024 of the 2024/25 financial year. The major change is that under IFRS16 there will no longer be any distinction between operating and finance leases in the financial statements of lessees.

Previously, local authorities account for an item as an operating lease if most of the risks and rewards have not transferred to them. In this case, they simply record a rental expense on a straight-line basis over the lease term, with no long-term asset or liability recorded. This accounting treatment will cease to exist, except in the case of low-value items, or short-term leases (under 12 months).

This means that local authorities will be required to include a right-of-use (RoU) asset and an equivalent liability, at the present value of lease payments. The standard requires capitalisation of lease RoU assets, with subsequent depreciation of costs (that would previously have been an expense when paid). The amounts previously expensed as operating cash outflows will instead be capitalised and presented as financing cash outflows.

The implementation of the IFRS16 lease accounting standard in April 2024 may increase the level of assets and liabilities, which in turn would increase the capital financing requirement, the operational boundary, the authorised limit and the ratio of financing costs to net revenue stream.

The standard has no impact on the actual cash flows of the PCC for Lincolnshire.
Data is still being identified, gathered and calculated for the Lincolnshire IFRS16 assessment, which means that off-balance sheet assets may need to be brought onto the Balance Sheet in 2024/25 that have not yet been included. Limits may therefore need to be amended once the detailed impact is known. Preliminary work carried out to date suggests there will be minimal impact for the PCC.

The PCC will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

There have been no changes in risk management policy. The above criteria are unchanged from last year.

4.2. Creditworthiness policy

The primary principle governing the PCC's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the PCC will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- 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 procedures also apply to the PCC's prudential indicators covering the maximum principal sums invested.

The PCC applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies (Fitch, Moody's and Standard & 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, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. 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	*5 years*
Dark pink	*5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25*
Light pink	*5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5*
Purple	*2 years*
Blue	*1 year (only applies to nationalised or semi nationalised UK Banks)*
Orange	*1 year*
Red	*6 months*
Green	*100 days*
No colour	*Not to be used*

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

Typically, the minimum credit ratings criteria the PCC uses will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. 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 frequently. The PCC is alerted to changes to ratings of all three agencies through its use of the Link Groups' 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 European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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 the PCC will also use market data and market information, information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	**Transaction Limit**	**Time Limit**
Banks	**yellow**	**£4m/20%***	**5yrs**
Banks	**purple**	**£4m/20%***	**2 yrs**
Banks	**orange**	**£4m/20%***	**1 yr**
Banks – part nationalised	**blue**	**£4m/20%***	**1 yr**
Banks	**red**	**£4m/20%***	**6 mths**
Banks	**green**	**£4m/20%***	**100 days**
Banks	**No colour**	**Not to be used**	
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**£4m/20%***	**1 yr**
	Fund rating		**Time Limit**
Money market funds LVNAV	**AAA**	**£4m**	**liquid**

* Whichever is the higher

In addition to the above, a further £1m operational limit applies against the PCC's own banker, HSBC, for transactional purposes.

Creditworthiness
Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, the PCC will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the PCC has access to this information via its Link-provided Passport portal.

4.3. Country limits

The PCC has determined that it will use any UK counterparties irrespective of rating and approved counterparties from non-UK countries with a minimum sovereign credit rating of AAA from Fitch. The list of countries that qualify using this credit criteria are provided by Link and is regularly reviewed. Changes will be notified to us should ratings change in accordance with this policy.

4.4. 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). Greater returns are usually obtainable by investing for longer periods but they do tie up funds for longer.

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.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Against this view, for cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, in order to benefit from the compounding of interest.

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the PCC's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

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

Upper limit for principal sums invested for longer than 365 days			
£m	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£m Nil	£m Nil	£m Nil

For its cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) in order to benefit from the compounding of interest.

4.5. Investment performance / risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security

The PCC's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

Liquidity

In respect of this area the PCC seeks to maintain:

- Liquid short term deposits of at least £1m available with a week's notice;
- Weighted average life benchmark is expected to be 3 months, because the PCC will keep the cash relatively short dated to manage security and cash flow measures.

4.6. End of year investment report

At the end of the financial year the PCC will report on his investment activity as part of the Annual Treasury Report.

5. APPENDICES

1. The Prudential and Treasury indicators
2. Treasury management scheme of delegation
3. The treasury management role of the section 151 officer

Appendix 1 - The Prudential and Treasury Indicators 2022/23 – 2027/28

	Prudential Indicators:	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
1	**Capital expenditure**	5,757	8,168	16,326	10,193	5,747	3,637
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
2	**Capital financing requirement**	43,172	46,804	53,572	57,727	56,319	52,643
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
3	**Authorised limit for external debt**	49,000	52,000	59,000	63,000	62,000	58,000
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
4	**Operational boundary**	44,000	47,000	54,000	58,000	57,000	53,000
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
5	**Actual external debt**	27,473	26,591	36,739	42,446	41,729	41,039
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
6	**Gross debt and the capital financing requirement**						
	Capital Financing Requirement	43,172	46,804	53,572	57,727	56,319	52,643
	Gross borrowing	27,473	26,591	36,739	42,446	41,729	41,039
	Under/(over) borrowing	15,699	20,213	16,833	15,281	14,589	11,604
		%	**%**	**%**	**%**	**%**	**%**
7	**Ratio of financing costs to net revenue stream**	2.68	2.92	3.48	4.59	5.48	5.56

8	Treasury Indicators: Liability benchmark - see section 2.3 in report	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		£000					
9	**Maturity structure of fixed rate borrowing**	Actual	Upper Limit	Lower Limit			
	Under 12 months	4%	20%	0%			
	12 months and within 24 months	3%	30%	0%			
	24 months and within 5 years	8%	40%	0%			
	5 years and within 10 years	10%	50%	0%			
	10 years and above	75%	80%	0%			
10	**Upper limit for principal sums invested for longer than 365 days**	Nil	Nil	Nil	Nil	Nil	Nil

Appendix 2 - Treasury Management scheme of delegation including Section 151 Officer responsibilities

The PCC has adopted CIPFA's 'Treasury Management in the Public Services: Code of Practice' ("the Code").

The PCC's CFO shall borrow, temporarily invest and repay monies, subject to any constraints imposed by statute or the CIPFA Code of Practice, and subject to the general directions and within any limits prescribed from time to time by the PCC. The Chief Constable does not have the power to undertake any borrowing or investment activity.

The PCC will approve the Treasury Management Strategy prior to the commencement of each financial year having first taken the advice of the PCC's CFO. The PCC's CFO shall report to the PCC from time to time during each financial year on treasury management activity and shall submit a Treasury Annual Report by the end of September each year.

The PCC's CFO may make arrangements for the Director of Finance & Corporate Services (S151) or other officers to undertake or procure, in a manner acceptable to the PCC's CFO, the daily management of cash, loans and investment work.

No person shall borrow money on behalf of the PCC without the prior written approval of the PCC's CFO.

The PCC's CFO will approve the arrangements for the treasury management function, including the day to day management, the production of the treasury management strategy, and supporting policies and procedures.

Appendix 3 - The Treasury Management role of the Section 151 Officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular 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.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the PCC.
- ensure that the PCC has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the PCC does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the PCC
- ensuring that the PCC has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.