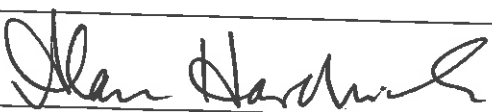


**POLICE AND CRIME COMMISSIONER (PCC) FOR LINCOLNSHIRE
REQUEST FOR DECISION**

REF: 005 – 2016
DATE: 25 February 2016

SUBJECT		FINANCIAL STRATEGY AND SUPPORTING PLANS
REPORT BY	CHIEF FINANCE OFFICER	
CONTACT OFFICER	Tony Tomlinson, Force Chief Finance Officer Tel 01522 558187	
EXECUTIVE SUMMARY AND PURPOSE OF REPORT		
<p>The Financial Strategy attached is intended to provide a framework and parameters for financial management.</p> <p>It will be supported by annual budgets and plans.</p> <p>The following plans are also attached to this report:</p> <ul style="list-style-type: none"> • Value for Money Plan 2016/17 • Procurement Plan 2016/17 • Treasury Management Plan 2016/17 		
RECOMMENDATIONS	<p><i>That the following be approved :</i></p> <ol style="list-style-type: none"> 1. <i>The Financial Strategy</i> 2. <i>The Value for Money Plan 2016/17</i> 3. <i>The Procurement Plan 2016/17</i> 4. <i>The Treasury Management Plan 2016/17 including:</i> <ul style="list-style-type: none"> (A) <i>The Minimum Revenue Provision described at paragraph 2.3 of the Plan</i> (B) <i>The prudential indicators and targets summarised at Appendix A of the Plan.</i> 	

POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE	
I hereby approve the recommendation above, having considered the content of this report.	
Signature: 	Date: 25/02/16

A. NON-CONFIDENTIAL FACTS AND ADVICE TO THE PCC

A1. INTRODUCTION AND BACKGROUND

1. See Introduction to the Financial Strategy.

A2. LINKS TO POLICE AND CRIME PLAN AND PCC'S STRATEGIES/PRIORITIES

2. The Financial Strategy will support the Police and Crime Plan and provide the framework for the management of all financial issues.

B. FINANCIAL CONSIDERATIONS

These are discussed in the Financial Strategy and supporting plans.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

There are no statutory requirements for the Police and Crime Commissioner (PCC) to agree a Financial Strategy, Value for Money Plan or Procurement Plan. The Treasury Management Plan 2016/17 complies with statutory and best practice guidance on treasury management. The PCC is required to agree prudential indicators and targets and to set a minimum revenue provision policy before the start of each financial year.

D. PERSONNEL AND EQUALITIES ISSUES

None.

E. REVIEW ARRANGEMENTS

It is intended that, like the Police and Crime Plan, the Financial Strategy will be valid for the Commissioner's term of office. Changes should be exceptional and probably related to external changes.

Budgets and supporting plans will be updated annually.

F. RISK MANAGEMENT

The Financial Strategy has been prepared in the context of an assessment of all financial risks and controls.

G. PUBLIC ACCESS TO INFORMATION

Information in this form along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC's website within one working day of approval. However, if release by that date would compromise the implementation of the decision being approved, publication may be deferred. An explanation for any deferment must be provided below, together with a date for publication.

Is the publication of this form to be deferred? No

If Yes, for what reason:

Until what date:

Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate part 2 form.

Is there a part 2 form? No

If Yes, for what reason:

ORIGINATING OFFICER DECLARATION

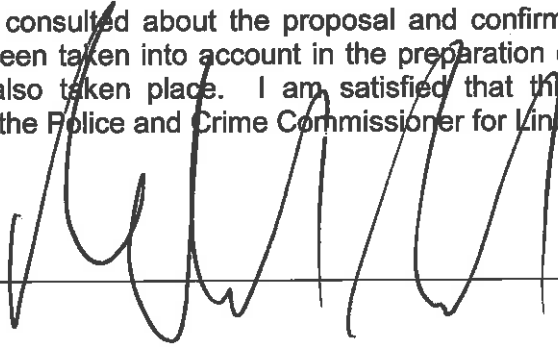
	Initial to confirm
Julie Flint, CFO recommends this proposal for the reasons outlined above.	JF
Financial advice: The CC's Chief Finance Officer has been consulted on this proposal.	RF
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	[Signature]
Chief Constable: The Chief Constable has been consulted on this proposal	HR

OFFICER APPROVAL

Chief Executive

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

Signature:



Date:

25/2/16

22 February 2016

Financial Strategy 2016/17

Police and Crime Commissioner for Lincolnshire

1. Introduction

1.1 The purpose of the Financial Strategy is to provide a framework and parameters for financial management. It aims to ensure that finances are managed well so that :

- Financial management helps to deliver the Police and Crime Plan ;
- Taxpayers' money is used in a way which provides good value for money ;
- Lincolnshire Police is in sound financial health ;
- There is effective corporate governance with sound systems of internal financial control.

1.2 The Strategy is implemented through a number of plans and policies as shown in Appendix A.

1.3 Content of the Financial Strategy:

2. Statutory requirements and guidance
3. Revenue spending and council tax
4. Fairer funding
5. Value for money
6. Capital spending and funding
7. Carry forward of over and under spending
8. Financial health and governance
9. Budget management
10. Procurement
11. Income and charging
12. Treasury management
13. Accounting and financial processes

1.4 Implementation of the Financial Strategy will be monitored through the measures of financial health and performance attached at Appendix B. There will also be an Annual Report on Financial Performance to the Chief Constable and the Commissioner which will include actual performance compared to the targets shown in Appendix B.

2. Statutory Requirements and Guidance

2.1 The financial affairs of the Commissioner and the Chief Constable will comply with statutory requirements including the requirements of the Police Reform and Social Responsibility Act 2011.

2.2 Financial affairs will also comply with the considerable amount of secondary legislation and guidance including:

- The Accounts and Audit Regulations
- The Code of Practice on Local Authority Accounting
- The Code of Practice on Internal Audit in Local Government
- Delivering Good Governance in Local Government
- Prudential Code for Capital Finance in Local Authorities
- The Code of Practice for Treasury Management in Public Services
- Financial Management Code of Practice for the Police Service.

3 Spending and Council Tax

3.1 Resources will be allocated in budgets to support and promote achievement of the Police and Crime Plan.

3.2 The total resources available and their allocation will be planned for a number of years ahead and agreed in a Medium Term Financial Plan.

3.3 Budgets will be set realistically with expenditure balanced to the income available. It is clear however that without a more equitable slice of the national police grant, or substantial precept rises in future years; Lincolnshire would not be able to set a budget without significant degradation of service from 2017/18 onwards.

3.4 The council tax will be set so as to deliver the Police and Crime Plan and with regard to the impact on Lincolnshire council tax payers and council tax capping limits set by the government.

4. Fairer Funding

4.1 Lincolnshire's case for an increased share of government funding will continue to be promoted with the government and those that can influence government, including Lincolnshire MPs. This will include working with others where there are common interests. There will be full engagement in the police formula funding review, taking place in 2016.

4.2 Objective information and analysis has been developed to support Lincolnshire's case, and will be further developed to support our input to the forthcoming formula review.

5. Value for money

5.1 The Commissioner will agree an annual Value for Money Plan before the start of each financial year. There will be specific arrangements to oversee its delivery with regular monitoring and reporting to the Chief Constable and the Police and Crime Commissioner.

5.2 Value for money will be a key consideration in decision making. This includes:

- Having robust business plans linking policing plans with the budgets available.
- Applying a rigorous business case test for all major projects involving new revenue or capital spending. All business cases will include the Chief Finance Officer's comments on financial implications, compliance, risk and value for money.
- Reviewing all areas of spending periodically through a planned programme of value for money reviews.

5.3 Services will be delivered in partnership with other bodies where this provides better value for money including better services and / or lower costs. This may include:

- Working jointly with partners particularly other police bodies in the region
- commissioning services from other bodies
- contracting out services to private sector providers

6. Capital Spending and Funding

6.1 Resources will be allocated in the capital programme to maintain and replace existing assets including buildings, vehicles and ICT systems.

6.2 Resources will also be allocated for new developments with priority given to projects, particularly ICT projects, which will generate worthwhile future savings or promote performance and productivity improvements.

6.3 Capital spending will be funded largely through long term borrowing. Surplus assets will be disposed of where appropriate in accordance with the Asset Management Strategy.

6.4 Annual provision will be made for the repayment of debt. The amount repaid will be related directly to the useful life of the assets acquired

through borrowing so that debt is not outstanding after an asset's useful life.

- 6.5 Provision for the repayment of debt including interest as a proportion of annual income from government grants and council tax will not exceed the limit set to ensure that long term borrowing is affordable and sustainable.

7. Carry forward of over and under spending

- 7.1 Under and over spends on department budgets are not carried forward into the following year automatically.

The use of any under spends will be considered overall as part of the outturn report and will be decided by the PCC.

- 7.2 All under and over spends on the following budgets will be carried forward without exception:
- capital budgets
 - specific grants

8. Financial Health and Governance

- 7.1 The Commissioner's Chief Finance Officer is responsible for ensuring that the Commissioner's financial affairs are properly administered having regard to their probity, legality and appropriate standards. The Chief Constable's Chief Finance Officer has the same responsibilities in relation to the Police Force.
- 7.2 The PCC and the Chief Constable will both prepare and publish codes of corporate governance and annual governance statements.
- 8.3 The PCC and the Chief Constable will also prepare risk registers and keep them under review.
- 8.4 A Joint Independent Audit Committee will monitor and report on the effectiveness of corporate governance and risk management arrangements.
- 8.5 Detailed Financial Regulations will be maintained and compliance monitored.
- 8.6 An internal audit function will be maintained in accordance with the CIPFA Code of Practice.
- 8.7 A register of financial risks will be maintained and kept under review, and appropriate arrangements made to eliminate or mitigate risks including establishing provisions, earmarked reserves and the use of insurance.

8.8 General reserves will be maintained around the mid-point of a target range based on the financial risk assessment in respect of residual financial risks.

9. Budget Management

8.1 The PCC and the Chief Constable will manage within approved budgets.

8.2 Budget management responsibilities for every revenue and capital budget will be delegated to nominated budget holders who will be expected:

- To set realistic budgets and to manage actual expenditure and income within these budgets
- To manage in a way which maximizes service performance and benefits
- And to take responsibility for financial management in their service area.

8.3 The PCC and the Chief Constable will monitor overall financial performance on a monthly basis and take any necessary corrective action. This will include ensuring that there is a planned approach to finding the savings necessary to balance the budget and that the required savings are achieved.

8.4 The Chief Finance Officer will ensure that budget holders and senior managers receive appropriate support including training. The CFO will also ensure that the finance function is resourced to be fit for purpose, including the availability of specialist financial expertise as necessary.

10. Procurement

9.1 The Commissioner will agree an annual Procurement Plan before the start of each financial year and will receive a year end annual report and other reports as required.

9.2 Procurement arrangements will be designed to ensure that the right things are acquired at the best price. This recognises both price and value.

9.3 Procurement processes will promote

- Value for money
- Transparency, accountability and probity
- And compliance with legal requirements

9.4 Strong centralised controls will be maintained to ensure high levels of compliance with approved processes.

9.5 Competitive prices will be achieved through maximizing the use of national or regional contracts which provide significant savings. Higher value contracts will be subject to tendering or other competitive processes.

10 Income and Charging

10.1 Charges for services will be set to comply fully with national guidance. National rates of charges will be applied where set.

10.2 Charges will be set to recover the full economic cost for policing commercial events. An abatement of 50% will apply to charges for charitable and community events.

10.4 Discretionary charges will, as a minimum, recover the costs of providing services.

10.3 All charges will be updated annually.

11 Treasury Management

11.1 The Commissioner will agree an annual Treasury Management Plan before the start of each financial year and will receive, as a minimum, a six month progress report and a year end annual report.

11.2 Long term borrowing will be taken from the Public Works Loan Board to fund capital expenditure. Decisions on borrowing will be based on a range of treasury management considerations including the cash flow position, current and projected interest rates, and the maturity profile of current debt.

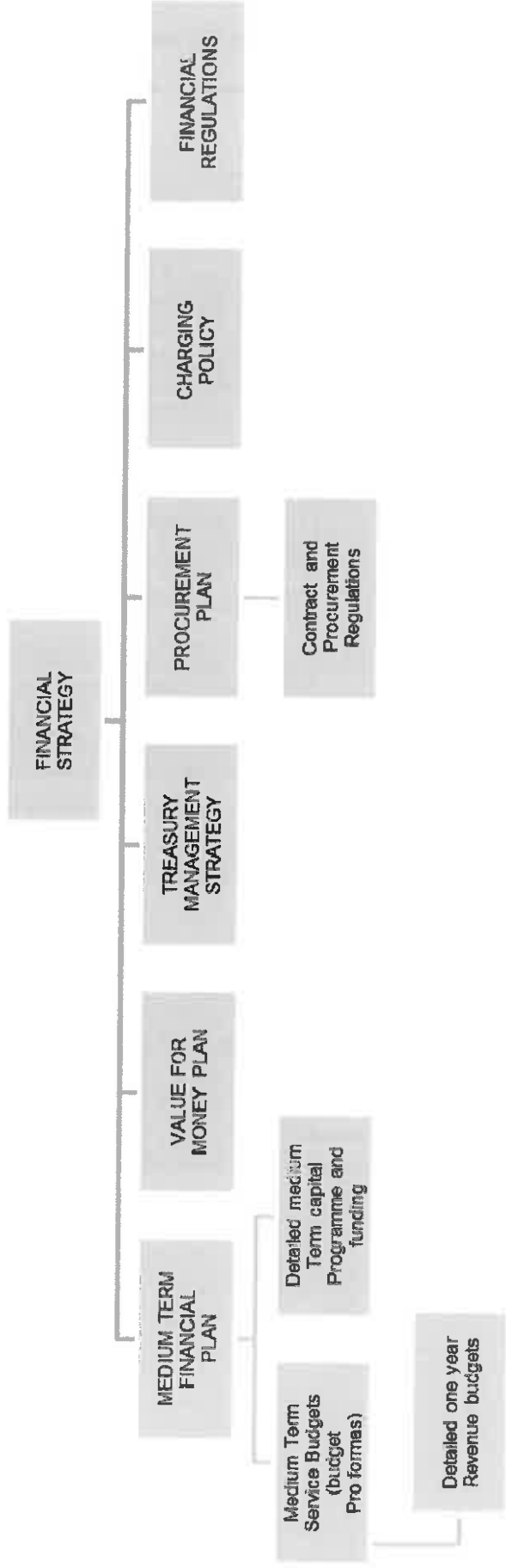
11.3 Policies for the investment of surplus cash will be security first, liquidity second and then return. Protection of the capital invested will be the overriding priority. Return on investment will be maximized but will be modest, commensurate with this level of risk.

11.4 The Commissioner will agree targets for specified prudential indicators in relation to capital financing and other treasury management matters before the start of each financial year. The main purpose of these is to ensure that capital financing, in particular its long term borrowing, is prudent, affordable and sustainable.

14. Accounting and Financial Processes

- 14.1 Strong financial controls will be maintained with the Chief Finance Officers responsible for agreeing all financial processes, systems and financial records.
- 14.2 Accounting policies will comply fully with International Financial Reporting Standards and statutory requirements as set out in the Code of Practice on Local Authority Accounting in the UK. The annual financial statements will give a true and fair view of the financial position and transactions in the opinion of the external auditor.

APPENDIX A



APPENDIX B

PERFORMANCE MEASURES: financial health and performance

REF	MEASURE	TARGET
	Financial health	
1	General reserves	Maintained around the mid-point of a target range based on a financial risk assessment, currently around 5% of total annual expenditure.
2	Borrowing	Annual cost of debt repayment and interest not to exceed 5% of annual income.
3	Internal control	All core financial systems to receive "substantial assurance" internal audit conclusions.
4	Accounting	Unqualified external audit opinion on the annual financial statements.
	Fairer funding	
5	Government grant	Increased share of national Police Grant.
	Value for money	
6	Spending	Lower than national average spending per head of population
	Financial performance	
7	Revenue budget management	More than 50% of budgets managed to within 1%.
8	Capital programme management	Actual capital spending managed to more than 80% of the approved programme.
9	Income from fees and charges	Annual Income from fees and charges (with the exception of mutual aid) to exceed £1m.
10	Income collection	Average number of debtor days not to exceed 30 days.
11	Payments	More than 90% of undisputed invoices to be paid within 30 working days.
12	G4S contract – finance functions	100% of G4S contractual targets achieved.
	Treasury management	
13	Interest earned	Interest rate on investments higher than average bank rate.
14	Interest paid	Interest paid on new long term borrowing less than average government borrowing rate.
	Procurement	
17	Extent of competition	Percentage of spending via national and regional frameworks and other competitive processes
16	Major contracts	Savings achieved on major contracts

22 February 2016

Value for Money Plan 2016/17

Police and Crime Commissioner for Lincolnshire

Chief Constable, Lincolnshire Police

1. Background

- 1.1 The Police and Crime Commissioner and the Chief Constable both have a statutory duty to make the best use of the resources available to them. The majority of the income for police and crime services comes from local and national taxpayers. The PCC and Chief Constable need to be able to demonstrate - to Lincolnshire people and to central government - that they are using the funding received to the best possible effect.
- 1.2 Central government grants provide over half the service's income. The grant which Lincolnshire receives is well below the national average: in fact, Lincolnshire's grant per head is one of the lowest in England. This was acknowledged in the recent Home Office Funding Formula Review where a new model moving away from the old complex resource based approach recognised approximately an additional £8 million in funding for Lincolnshire. The temporary delay in this review means that Lincolnshire will continue to face delivering services to the people of Lincolnshire with much less funding than comparable Forces have at their disposal.
- 1.3 With a much lower level of resources, it is not possible to provide a police service in Lincolnshire which is much better than the service provided by other forces. However, by delivering good value for money, services can be provided which are as good as those provided elsewhere in the country.
- 1.4 Lincolnshire's performance has improved over recent years and in general, compares well with other areas.
- 1.5 Lincolnshire Police, like most other public bodies, has had to make substantial savings over the first austerity period. Income from government grants reduced by 22% in the five years to 2015/16. Savings across the budget have been taken to the extent that it is not possible to make significant further savings without seriously impacting on the ability to deliver services.
- 1.6 HMIC have provided a detailed set of VFM profiles based on the Police Objective Analysis, Lincolnshire spends the second lowest amount per head of population across all 43 Forces, this means that in the majority of indicators Lincolnshire is in the lowest quartile of spend.
- 1.7 The Provisional Grant settlement for 2016/17 included an announcement that police spending would be protected in real terms as long as precept income is maximised within the limit set of 2%.
- 1.8 Home Secretary, Theresa May at the Police Reform Summit, 8 December 2015 stated:

“Your individual central Government funding allocations for 2016/17 will be set out in the Provisional Police Grant Report next week. But I can tell you now that –just as you had planned to do a month ago –every force will still need to make savings year on year. The overall policing budget is protected. But not the wasteful and inefficient spending that we all know still exists. Because if we are to meet the challenges that lie ahead, and if we are to ensure money is well spent, then further changes will need to be made. So this settlement is not a reprieve from reform. It does not let you off the hook or mean you can slow the pace of change. Nor does it insulate you from the need to make further efficiencies. Quite the opposite. Now –more than ever before –there is no excuse not to deliver.”

- 1.9 It is clear that the service will come under increasing pressures to meet new demands from within their existing funding envelope. The Emergency Service Mobile Communications Programme (ESMCP) will bring significant resource demands from existing resources.
- 1.10 Whilst the settlement announcement was positive news, the Budget for 2016/17 has been set against considerable cost pressures particularly from the removal of the National Insurance Contracting out rebate. These pressures, the low level of budgets already held and the requirement to maintain Officer and PCSO numbers means that the budget will need to be tightly controlled in 2016/17.
- 1.11 Lincolnshire police services therefore have to be managed within a small increase in resources available but greatly increased demands.

2. Current Performance

- 2.1 A summary of Lincolnshire’s performance compared with other areas of England and Wales is shown in the table below. This is taken from nationally published statistics including HM Inspectorate of Constabulary’s value for money profiles and HMIC Crime and Policing Comparators.

PERFORMANCE OR COST INDICATOR	LINCS	AVERAGE	LINCS DIFFERENCE
Recorded Crime (excluding Fraud) per 1,000 population 2014/15	48.7	62.1	13.4
Anti-social behaviour incidents per 1,000 population (12 months to 30 June 2015)	28.4	32.4	4.0
Calls for Assistance per 1,000 population 2014/15	228.2	315.5	87.3
Victim satisfaction % 2014/15	81.3% (of those surveyed)	83.8% (of those surveyed)	2.5%
Charge Rate (as a % of all crime) (12 months to 30 June 2015)	18.1	16.0%	2.1%
Number of Police Officers per 1,000 population 2014/15	2.1	3.7	1.6
Expenditure per head of population / per day 2014/15	42p	55p	13p

3. Financial Strategy

3.1 The Commissioner's Financial Strategy requires Value for Money to be a key consideration in decision making. This includes :

- Having robust business plans linking policing plans with the budgets available.
- Applying a rigorous business case test for all major projects involving new revenue or capital spending. All business cases will include the Chief Finance Officer's comments on financial implications, compliance, risk and value for money.
- Reviewing all areas of spending periodically through a planned programme of value for money reviews.

3.2 Services will be delivered in partnership with other bodies where this provides better value for money including better services and / or lower costs. This may include :

- Working jointly with partners particularly other police bodies in the region
- commissioning services from other bodies
- contracting out services to private sector providers

4. Priorities for 2016/17

4.1 The main emphasis of work in 2016/17 will be on:

- **Delivering planned savings** for 2016/17. Planned cumulative savings of over £20 million have been delivered successfully over the last four years. There are limited opportunities for the achievement of further savings without serious service degradation. The budget for 2016/17 identifies a further £1.9m of savings which will require close monitoring and management through the year.
- Securing the transformational improvement being delivered through the **strategic partner arrangement** with G4S who provide the majority of back office, control room and some criminal justice services. A key part of the partnership agreement is that, in addition to providing financial savings, G4S will improve services significantly by transforming the way they are delivered.

- Developing and implementing the projects and work streams under the **PEEL Programme**. This is a major programme of work. Ensuring that promised benefits are realised in practice will also be a key feature of the programme.

In 2016/17 work will be undertaken on:

- Realisation of the benefits of a major investment in Mobile Data to achieve improvements in the use of officer time.
- The implementation of a review of the Policing Model, in order to address priority areas of high threat, harm and risk e.g. vulnerable groups and cybercrime.
- Ensuring the benefits from Collaboration are realised and reinvested in service delivery.
- Infrastructure projects such as the examination of a proposal for a force wide Lighting Project, on an invest to save basis. Which would result in significant ongoing savings in utility costs

5. Management and Performance

- 5.1 Delivery of the Value for Money Plan is overseen by the Resource Governance Board and progress is reported regularly to the Chief Constable and the Police and Crime Commissioner through monthly budget monitoring reports.
- 5.2 Independent assessments of the delivery of value for money are also provided by the external auditor and by HM Inspectorate of Constabulary.

08 January 2016

Procurement Plan 2016/17

Police and Crime Commissioner for Lincolnshire

Chief Constable, Lincolnshire Police

Background

1. The Police and Crime Commissioner and the Chief Constable are required to undertake procurement actions on a day to day basis. In general most of these decisions will be for purchases of a relatively minor basis and will be dealt with under delegated purchasing by individual departments. However there are occasions where the obligations being taken on by the PCC or the Force will be significant both in terms of the financial commitment and/or the timescales of the contract being entered into. In these circumstances the Strategic Procurement Unit (SPU) will manage the contractual process to ensure both compliance to legal and statutory requirements and advise on suitable timescales and routes to market.

2. The Strategic Procurement Unit keep a database of all contracts currently in place above £25k, which they manage on a day to day basis and ensure that where renewal actions are required that these are identified, planned and actioned on a timely basis. Further they ensure that the processes that are followed are undertaken in accordance with the relevant rules and standards connected with police procurement in the public sector.

Current performance

3. The schedule attached, which was approved by the PCC, lists fixed term contracts with values above £25k and planned action on the expiry of these contracts (attached at Appendix A).

4. A summary of Lincolnshire's current overall spend identified in the above is shown below:

- Currently 42 live Contracts above £25k with a value of £6,756,045
- 38% (16) of contracts listed have an annual value above £100,000 and constitute 82% of spend
- 79% (33) of contracts listed were awarded under other police/public collaborative/framework arrangements and constitute 79% of spend
- 14% (6) of contracts listed were awarded under the PCC for Lincolnshire terms/arrangements and constitute 9% of spend.

5. A list of all fixed term managed contracts has been created and is overseen by the CPT and SPU to ensure timely renewal of any relevant Contracts.

Priorities for 2016/17

6. The main emphasis of work in 2016/17 will be:

Ongoing:

- **Continued review of the large contracts list** to ensure that contracts above £25k that are due to expire are dealt with in a timely manner.

Updated versions of the large contracts list will be considered by the Resource Governance Meeting as required.

- **Continued review of the fixed term managed contracts list** throughout the year to ensure all renewals are dealt with in a timely manner. The renewal of any Contracts below £10k will be undertaken by individual departments and the CPU. The SPU will be involved with all renewals above £10k.
- **Review of the Procurement Risk Assessment** will be undertaken on an ongoing basis throughout the year as required.
- **t-Police will continue to be developed** as far as possible to improve procurement information available to the PCC and the Force. Where possible, this will include identifying expenditure occurring under frameworks and Contracts, and amending the standard reports to produce relevant information as required by the PCC and the Force. This will also include the SPU investigating to see if there are any opportunities/benefits to get more catalogues set up on T-Police.
- **Updating the PCC and the Force on the new EU Procurement Regulations** as these are received and any implications that this will have on current processes.
- **Major Contract Work for 2016/17.** The following major procurements are due to be undertaken during the Financial Year 2016/17:
 - Airwave Coverage Managed Services (Emergency Services Mobile Communications Programme). This is scheduled to go live end of 2016/beginning of 2017.
 - Building Works Capital Programme. These projects will be progressed as and when the relevant paperwork is received.

Quarter 1 16/17:

- **Review of new T-Police approval process.** The SPU are in the process of implementing a new approval hierarchy for purchase orders and this should have been agreed and implemented prior to 31/03/15. The SPU will review this new process to ensure it is running smoothly and to identify any areas where additional training or amendments to the processes need to be undertaken.

Quarter 2 16/17:

- **Continued evaluation of all existing frameworks/contracts used by the PCC and the Force.** During the financial year 2015/16, the SPU has gathered together information regarding which frameworks and collaborative contracts are currently being used by Lincolnshire Police. This information will be used to investigate whether the most cost effective options are being used. The SPU will also look at any high value spend for suppliers for requirements under £10k to assess whether there is any benefit to setting up any further frameworks/contracts or commencing to use existing ones available

Quarter 3 16/17:

- **Implementation of Contracts Section on T-Police.** There is a section on T-Police where details of Contracts/frameworks are held which would enable more detailed information to be provided by the system on actual spend under these. The SPU will use the outcome of the framework evaluation process to be completed in Quarter 2 above to populate this section of the system. This will also include relevant training/communication for Central Purchasing Unit, requisitioning staff and budgets holders to ensure they understand the importance of using any frameworks/contracts put in place.

Quarter 4 16/17:

- **Finalise the reporting mechanisms available from T-Police** to ensure the correct reports are set up to gather the relevant spend data.

Management and performance**7. Performance targets and measures will include:**

- Percentage of spending via national and regional frameworks or contracts, when this information is available
- Percentage of spending via other competitive processes, when this information is available
- Savings achieved on major contracts
- Percentage of purchase orders that are retrospective
- The Resource Governance Meeting will monitor delivery of this plan.

25 February 2016

**Treasury Management
Strategy Statement 2016/17**
Minimum Revenue Provision Policy Statement
and Annual Investment Strategy

Police & Crime Commissioner for Lincolnshire

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1 INTRODUCTION

1.1 Background

The Police & Crime Commissioner (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 local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting requirements

The PCC is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, 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 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 Resource Governance meeting.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

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

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 members with responsibility for treasury management receive adequate training in treasury management. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Office of the Police & Crime Commissioner (OPCC) uses Capita Asset Services, Treasury solutions 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 our 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 2016/17 – 2018/19

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.

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 following table shows the capital expenditure forecasts:

Capital expenditure £000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Building Schemes	856	1,977	1,500	1,500	1,500
Business Transformation	870	0	0	0	0
Blue Light PIF	0	0	4,156	9,698	0
ICT	776	1,430	500	2,255	1,000
Vehicles	560	750	1,000	1,000	750
Other	445	420	0	0	250
Total	3,507	4,577	7,156	14,453	3,500

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 £000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	3,507	4,577	7,156	14,453	3,500
Financed by:					
Capital receipts	351	0	0	0	0
Capital grants & Contributions	1,823	1,601	2,535	7,306	457
Capital reserves	0	0	0	0	0
Revenue	471	1,161	0	0	0
Net financing need for the year	862	1,815	4,621	7,147	3,043

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 assets life.

The table below shows the CFR projections.

£000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement					
Total CFR b/fwd	31,164	31,323	32,211	36,130	42,644
Movement in CFR	159	888	3,919	6,514	2,302
Total CFR c/fwd	31,323	32,211	36,130	42,644	44,946

Movement in CFR represented by					
Net financing need for the year (above)	862	1,815	4,621	7,147	3,043
Less MRP/VRP and other financing movements	2,151	1,927	1,702	1,633	1,741
Plus ICT lease	1,448	1,000	1,000	1,000	1,000
Movement in CFR	159	888	3,919	6,514	2,302

2.3 Minimum revenue provision (MRP) policy statement

The PCC is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the PCC 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's current policy is:

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

These options provide for an approximate 4% reduction in the borrowing need (CFR) 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, in accordance with the regulations.

These options provide for a reduction in the borrowing need over approximately the asset's life. It is possible to undertake additional voluntary payments if

required (VRP). However, having regard to affordability, it is proposed that debt is repaid at the Minimum Revenue Provision level.

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.

Year End Resources £000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Fund balances / reserves	18,071	15,822	14,259	14,259	14,259
Capital receipts	351	-	-	-	-
Provisions	1,104	268	268	268	268
Other	-	-	-	-	-
Total core funds	19,526	16,090	14,527	14,527	14,527
Working capital*	6,062	6,003	6,003	6,003	6,003
Under borrowing	8,277	10,092	14,713	14,713	14,713
Expected investments	17,311	12,001	5,817	5,817	5,817

*Working capital balances shown are estimated year end; these may vary mid-year.

2.5 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.

2.6 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.

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	2.47	2.30	2.19	2.10	1.97

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

2.7 Incremental impact of capital investment decisions on PCC tax

This indicator identifies the revenue costs associated with proposed changes to 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 currently.

Incremental impact £	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
PCC tax - band D	0	0	1.00	1.72	1.25

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 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 PCC's treasury portfolio position at 31 March 2015, 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).

£000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt at 1 April	14,704	13,142	11,830	15,391	21,554
New loans	-	-	4,621	7,147	3,043
Repayments	1,562	1,312	1,060	984	1,127
Actual gross debt at 31 March	13,142	11,830	15,391	21,554	23,469

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 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 2016/17 and the following two financial years. 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 £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	15	20	25	25

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 £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	20	25	30	30

3.3 Prospects for interest rates

The PCC has appointed Capita Asset Services 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 our central view.

	Apr-15	May-15	Jun-15	Jul-15	Oct-15	Nov-15	Jan-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr FWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr FWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr FWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr FWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate

increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

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 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 2016/17 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.
- Forecasting will take place in the first half of 2016/17 to determine the timing of any potential borrowing requirements. This planning will facilitate a swift response to any risk in interest rate rises.

Any decisions will be reported to the Resource Governance meeting 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. It is also possible to borrow short term funds at low cost from other local authorities, particularly for up to 5 years, this option would also be considered.

Borrowing is undertaken at a time appropriate to coincide with an identified dip in borrowing rates available and as long term borrowing rates have not increased significantly and cash flows have remained strong, no new external borrowing has yet been taken in 2015/16. Projections show it is likely to require borrowing in 2016/17.

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 are 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.

3.5 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 treasury indicators and limits are as follows:

	2016/17	2017/18	2018/19
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 2016/17			
	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	20%	30%	
2 years to 5 years	30%	40%	
5 years to 10 years	0%	50%	
10 years and above	10%	80%	
Maturity structure of variable interest rate borrowing 2016/17			
	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%	50%	
10 years and above	10%	80%	

3.6 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.

3.7 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 Resource Governance, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.2 Investment policy

The PCC's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 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, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the PCC applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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 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.

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.

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
Specified Investments			
DMADF – UK Government	AAA	100%	1 year (current max maturity period is 6 months)
Money market funds	AAA	£4m each	Liquid
Local authorities	N/A	£4m each	1 year
Term deposits with banks and building societies	See paragraph 4.3	£4m each	See paragraph 4.3

4.3 Creditworthiness policy

This PCC applies the creditworthiness service provided by Capita Asset Services. 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/Dark pink/Light pink/Purple/Blue/Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

The Capita Asset Services' creditworthiness service uses a wider array of information 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 use 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. The PCC is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' 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 daily basis via its Passport website, provided exclusively to it by Capita 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 this PCC will also use market data and market information, information on any external support for banks to help support its decision making process.

4.4 Diversifying Investment

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

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

4.5 Country and sector 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
- Germany
- Singapore
- Sweden
- Switzerland

The sovereign rating of the UK has been and will continue to be reviewed by the OPCC.

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

4.6 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 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2016/17 0.90%
- 2017/18 1.50%
- 2018/19 2.00%
- 2019/20 2.25%
- 2020/21 2.50%
- 2021/22 3.00%
- 2022/23 3.00%
- Later years 3.00%

The following table shows the current budget for investment earnings:

	2016/17 £000s	2017/18 £000s	2018/19 £000s
Investment earnings	50	50	50

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 364 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, shown below:

Maximum principal sums invested > 364 days			
£m	2016/17	2017/18	2018/19
Principal sums invested > 364 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 the UK Government Debt Management Office.

4.7 End of year investment report

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

APPENDICES

Appendix A – Summary of Prudential Indicators & Targets

Appendix B – Treasury management scheme of delegation including Section 151 Officer responsibilities.

Summary of Prudential Indicators & Targets

Appendix A

PRUDENTIAL INDICATOR TARGETS	2014/15	2015/16	2016/17	2017/18	2018/19
External Debt					
1 Authorised limit for external debt: The PCC will set for the forthcoming financial year and the following two years an authorised limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities					
<u>Authorised limit for external debt:</u>	£'000	£'000	£'000	£'000	£'000
Borrowing	42,000	20,000	25,000	30,000	30,000
Other long term liabilities	-	-	-	-	-
Total	42,000	20,000	25,000	30,000	30,000
2 Operational boundary: The PCC will set for the forthcoming financial year and the following two years an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities					
<u>Operational boundary:</u>	£'000	£'000	£'000	£'000	£'000
Borrowing	40,000	15,000	20,000	25,000	25,000
Other long term liabilities	-	-	-	-	-
Total	40,000	15,000	20,000	25,000	25,000
Treasury Management Indicators					
Interest Rate Exposures The PCC will set for the forthcoming financial year and the following two years upper limits to its exposures to the effect of changes in interest rates					
	£'000	£'000	£'000	£'000	£'000
3 Upper limit for fixed interest rate exposure: Net principal re fixed rate borrowing less investments	-4,169	-171	9,574	15,737	17,653
4 Upper limit for variable rate exposure: Net principal re variable rate borrowing less investments	-1,251	-51	2,872	4,721	5,296
Gross and Net Debt The PCC will set for the forthcoming financial year and the following two years upper limits on the proportion of net debt compared to gross debt					
5 Upper limit for net debt as percentage of gross debt:	100%	100%	100%	100%	100%
6 Ratio of financing costs to net revenue stream: The PCC will estimate for the forthcoming financial year and the following two years the ratio of financing costs to net revenue stream	2.47%	2.30%	2.19%	2.10%	1.97%
7 Capital financing requirement: The PCC shall make reasonable estimates of the total of capital financing requirement at the end of the forthcoming financial year and the following two years					
Estimate of the capital financing requirement for the PCC	£'000 31,323	£'000 32,211	£'000 36,130	£'000 42,644	£'000 44,946
8 Estimate of the incremental impact of capital investment decisions on the council tax: The PCC will calculate the addition or reduction to council tax that results from any proposed changes to the capital programme					
Band D council tax	-	-	£1.05	£1.81	£1.34
9 Maturity structure of new fixed rate borrowing: The PCC will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of borrowing					
		Upper Limit	Lower Limit		
Under 12 months		20%	0%		
12 months and within 24 months		30%	20%		
24 months and within 5 years		40%	30%		
5 years and within 10 years		50%	0%		
10 years and above		80%	10%		

Appendix B

Treasury management scheme of delegation including Section 151 Officer responsibilities.

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

The Commissioner'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 Commissioner. The Chief Constable does not have the power to undertake any borrowing or investment activity.

The Commissioner will approve the Treasury Management Strategy prior to the commencement of each financial year having first taken the advice of the Commissioner's CFO. The Commissioner's CFO shall report to the Commissioner 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 Commissioner's CFO may make arrangements for the Force Chief Finance Officer, other officers or a strategic partner to undertake or procure, in a manner acceptable to the Commissioner's CFO, the daily management of cash, loans and investment work.

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

The Commissioner's Chief Finance Officer 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.

As section 151 officer, the Commissioner's CFO 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.

