POLICE AND CRIME COMMISSIONER FOR HAMPSHIRE AND HAMPSHIRE CONSTABULARY

JOINT AUDIT COMMITTEE – 26 MARCH 2014

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2014/15 TO 2016/17

REPORT OF THE CHIEF FINANCE OFFICER OF THE OFFICE OF THE POLICE AND CRIME COMMISSIONER

1 PURPOSE

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities and Local Government's (DCLG) Investment Guidance.

1.2 As per the requirements of the Prudential Code, the Police and Crime Commissioner (PCC) for Hampshire adopted the CIPFA Treasury Management Code at his meeting on 11 February 2013. This report fulfills the Office of the Police and Crime Commissioner's (OPCC's) legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

1.3 The purpose of this TMSS is, therefore, to approve:

- Treasury Management Strategy for 2014/15
- Annual Investment Strategy for 2014/15
- Prudential Indicators for 2014/15, 2015/16 and 2016/17 shown in Appendix D
- Minimum Revenue Provision (MRP) Statement shown in Appendix E

1.4 The OPCC has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the OPCC's treasury management strategy.

2 RECOMMENDATION

2.1 The Joint Audit Committee are asked to note the following recommendations that are being reported to the PCC:

- Treasury Management Strategy and Annual Investment Strategy for 2014/15, (and for the rest of 2013/14) including:

- Prudential Indicators for 2014/15, 2015/16 and 2016/17 – Appendix D
- Minimum Revenue Provision (MRP) Statement – Appendix E
- That authority is delegated to the CFO to the PCC to manage the OPCC's investments according to the risk assessment process in the Investment Strategy and to amend the list of approved counterparties, cash limit and duration limit (up to the maximum cash limit and duration outlined in this Strategy) as appropriate to most effectively manage the OPCC's investments.

3 ECONOMIC OUTLOOK

3.1 The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation (CPI) from the high of 5.2% in September 2011 to 1.9% in January 2014, below the Bank of England`s target of 2.0%, will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

3.2 Stronger growth data in 2013 (0.5% in Q1, 0.8% in Q2, 0.8% in Q3 and 0.7% in Q4) alongside a pick-up in property prices mainly stoked by Government initiatives to boost mortgage lending have led markets to price in an earlier than warranted rise in interest rates. The Bank of England's Monetary Policy Committee (MPC) issued its first set of Forward Guidance in August 2013 using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain conditions. Unemployment has fallen faster than expected, after a number of months of reductions which brought the rate of unemployment to 7.1% in January 2014. Unemployment rose slightly to 7.2% in February 2014 and is expected to reach the 7% threshold by the Spring of 2014.

3.3 In light of the pick-up in economic growth and fall in unemployment the Bank of England produced further forward guidance in its inflation report in February 2014. The MPC believes that there will still be spare capacity in the economy once its initial threshold for unemployment has been reached, and that future rises in interest rates will be timed in order to eliminate this slack. The OPCC's treasury management advisers, Arlingclose, forecast that the MPC will maintain its resolve to keep interest rates at their current level of 0.5% until quarter 2 of 2016, until the recovery is convincing and sustainable. A more detailed economic and interest rate forecast provided by Arlingclose is attached in Appendix A.

3.4 The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK (Banking Reform Act 2014), and Europe (EU Bank Recovery and Resolution Directive) to move away from the bank 'bail-outs' of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. In the event of a 'bail in' investors funds would be top-sliced to meet the losses of the failing bank and restore it to an acceptable level of financial health, resulting in a capital loss to those investors. This is already manifest in relation to holders of subordinated debt issued by the Co-operative Bank (which the OPCC does not invest in) whose investment has been partially converted into less valuable equity. As a result, to mitigate the greater risk to bank investments posed by the prospect of 'bail-ins', the OPCC will look to reduce the exposure of its cash investments to any individual counterparty, as well as continue to invest in only those institutions that are assessed as lower risk by meeting its credit criteria.

4 BALANCE SHEET POSITION AND CAPITAL FINANCING REQUIREMENT

4.1 As at 28 February 2014 the OPCC had £37.2m of borrowing and £67.9m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.14 Estimate £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m
Capital Financing Requirement	47.4	49.0	47.2	45.1
Less: Finance Leases	0.0	0.0	0.0	0.0
Borrowing CFR	47.4	49.0	47.2	45.1
Less: External borrowing (PWLB)	-37.2	-36.0	-34.4	-33.4
Internal (over) borrowing	10.2	13.0	12.8	11.7
Usable reserves				
- Police and Crime Commissioner	53.1	31.3	24.1	18.7
- Association of Chief Police Officers (ACPO) Criminal Records Office – ACRO*	10.3	6.4	2.5	2.5
	63.4	37.7	26.6	21.2
New borrowing or (investments)	(53.2)	(24.7)	(13.8)	(9.5)

*ACRO is a service hosted by the OPCC, its funds are ring-fenced and it receives interest on the balances it holds

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The OPCC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Internal borrowing has the dual advantages of reducing the OPCC's investment balances exposure to counterparty risk and its cost of carry, the difference between the cost of borrowing and the return on investment if funds are borrowed before they are actually required.

4.3 The OPCC's CFR is forecast to fall slightly over the period to 2016/17. The OPCC's reserves are forecast to reduce over the coming years. The level of reserves is forecast to remain above the level of forecast internal borrowing (assuming no new external borrowing), although the difference will be much reduced by 2016/17.

4.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the OPCC's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the OPCC expects to comply with this recommendation during 2014/15 and the following two years.

5 BORROWING STRATEGY

5.1 The OPCC currently holds £37.2m of loans taken out between 1995 and 2011, when the Police Authority's cash balances were considerably lower than they are today, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the OPCC does not expect to need to borrow in 2014/15. The OPCC may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £80m.

5.2 The OPCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the OPCC's long-term plans change is a secondary objective.

5.3 With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources (borrow internally). By doing so, the OPCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. If the benefits from reducing the internally borrowed position are sufficient then the OPCC will enter into new long-term borrowing agreements, whilst remaining within its authorised limit for borrowing.

5.4 In addition, the OPCC may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. Short-term and variable rate loans leave the OPCC exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

5.5 The OPCC has previously raised all of its long-term borrowing from the

Public Works Loan Board, but if long-term borrowing is necessary it will also investigate other sources of finance, such as bank loans, that may be available at more favourable rates. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Hampshire Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local OPCC bond issues.

5.6 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. There is currently no financial benefit to the OPCC in using any of its current reserves to repay loans, as the premium that is added by the PWLB to any loans that are repaid is still relatively expensive for the loans in the portfolio in comparison to the returns available from continuing to invest reserves. However, consideration will continue to be given to any advantageous opportunity to reduce or restructure the debt portfolio in the future.

6 INVESTMENT STRATEGY

6.1 The OPCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the OPCC's investment balance has ranged between £45m and £102m, and similar levels are expected to be maintained in the forthcoming year.

6.2 Both the CIPFA Code and the CLG Guidance require the OPCC to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The OPCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

6.3 The OPCC may invest its surplus funds with any of the types of counterparties in Table 2 below, subject to the cash and duration limit shown.

Table 2: Approved Investment Counterparties

Counterparty	Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's meets the OPCC`s minimum rating of A- or equivalent (see Appendix C for the current list)	£12m each	2 years
The OPCC's current account bank (NatWest) if it fails to meet the above criteria	£10m	Over night
UK Central Government (irrespective of credit rating)	unlimited	3 years
UK Local Authorities (irrespective of credit rating)	£10m each	3 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher. Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed.	£5m each	3 years
Money market funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager.	£12m each (no more than 50% of total funds with MMFs)	n/a
Other pooled funds: pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the OPCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investment into these type of funds will only be made subject to further reporting to the PCC.	£5m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the OPCC's treasury management adviser	£12m	2 years

6.4 The counterparty limit for banks and building societies is being reduced from £15m to £12m. The counterparty limit is being reduced to ensure better diversification of investments with the forecast cashflow and peaks in the cash balance, such as when the Police Pension Top-up Grant is received annually. Operationally the amount invested with any individual counterparty will be reduced further, through the use of more counterparties that meet the OPCC's credit criteria. This will ensure that the OPCC has a greater level of diversification in its cash investments across a range of creditworthy counterparties, which is increasingly important to mitigate the risk of the loss of the OPCC's capital in a bank 'bail-in' as banking regulations change as outlined in paragraph 2.4. This reflects a lower likelihood that the UK and other governments will support failing banks as the 'bail-in' provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution

Directive are implemented.

6.5 **Approved Instruments**: The OPCC may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits where the OPCC may demand repayment at any time (with or without notice),
- callable loans where the borrower may demand repayment at any time, but subject to a maximum of £5m in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

6.6 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below. Investments are generally made with mainly UK high-street banks and building societies (shown in Appendix C), which the OPCC can place investments with directly into call accounts or term deposits. The OPCC also considers investing in other counterparties, mainly overseas banks (shown in Appendix C), where it can only invest in certificates of deposit. Throughout the coming year counterparties that were previously only accessible via certificates of deposit may accept direct investments, and therefore these distinctions are not fixed.

6.7 **Liquidity management**: The OPCC has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the OPCC's forecast medium term financial position (summarised in Table 1) and annual cashflow forecast produced by the Corporate Finance team.

6.8 **Current Account Bank**: The OPCC's current account is held with NatWest, which is currently rated at the minimum A- rating in table 2. Should the credit ratings fall below A- the OPCC may continue to deposit surplus cash with NatWest providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

6.9 **Risk Assessment and Credit Ratings**: The OPCC uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the OPCC's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.10 Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.11 **Other Information on the Security of Investments:** It is accepted that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

6.12 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the OPCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the OPCC's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, Treasury Bills or Gilts for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6.13 The current list of approved counterparties and current duration limits for investments is shown in Appendix C. It is recommended that authority is delegated to the CFO TO THE PCC to manage the OPCC's investments according to the risk assessment process outlined above and to amend the list of approved counterparties, cash limit and duration limit (up to the maximum cash limit and duration outlined in this Strategy) as appropriate to most effectively manage the OPCC's investments.

6.14 **Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound Sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council,

or

  - a body or investment scheme of "high credit quality".

6.15 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The OPCC defines 'high credit quality' organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. The OPCC does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£20m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£12m
Total non-Sterling investments*	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£32m

* With the exception of EU grant funding administration

7 TREASURY MANAGEMENT INDICATORS

7.1 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the OPCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£20m	£20m	£20m

7.2 **Interest Rate Exposures:** This indicator is set to control the OPCC's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the principal borrowed or invested will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate investment exposure	£20m	£20m	£20m
Upper limit on variable interest rate investment exposure	£140m	£140m	£140m
Upper limit on fixed interest rate borrowing exposure Estimate – to be updated	£80m	£80m	£80m
Upper limit on variable interest rate borrowing exposure Estimate – to be updated	£80m	£80m	£80m

7.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate, therefore the limit for fixed interest rate exposure is in line with the limit for investment beyond the 2014/15 year-end. The limits for exposure to fixed and variable rate borrowing have been set to give the OPCC maximum flexibility in the event of debt rescheduling.

7.4 **Maturity Structure of Borrowing:** This indicator is set to control the OPCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and above	100%	0%

8 OTHER ITEMS

8.1 There are a number of additional items that the OPCC is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

8.2 **Use of Financial Derivatives**: In the absence of any clear legal power to do so, the OPCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment Training:** The needs of the OPCC's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

8.4 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

8.5 CIPFA's Code of Practice requires that the OPCC ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Members of the Joint Audit Committee were invited to a workshop presented by Arlingclose on 19 November 2013, which gave an update on treasury matters.

8.6 **Investment Advisers:** The OPCC has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the CFO TO THE PCC and her staff and Arlingclose.

8.7 **Investment of Money Borrowed in Advance of Need:** The OPCC may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the OPCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the OPCC's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £80m.

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APPENDICES:
Appendix A - Arlingclose Economic & Interest Rate Forecast December 13
Appendix B – Existing Investment & Debt Portfolio Position
Appendix C – Current approved counterparty list and duration limits
Appendix D - Prudential Indicators 2014/15
Appendix E – Annual Minimum Revenue Provision Statement 2014/15

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2013

Arlingclose`s projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

Arlingclose continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Downside risk										0.25	0.25	0.50	0.50
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.10
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.70	0.75	0.80	0.90	1.00	1.10	1.20	1.25
Downside risk			0.05	0.10	0.20	0.25	0.30	0.35	0.45	0.55	-0.65	-0.75	-0.80
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.20	1.30	1.40	1.50	1.60	1.70
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.20
Arlingclose Central Case	1.70	1.75	1.85	1.95	2.00	2.00	2.05	2.10	2.20	2.35	2.50	2.65	2.80
Downside risk	-0.20	-0.20	-0.30	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00
10-yr gilt yield													
Upside risk	0.20	0.35	0.45	0.50	0.60	0.70	0.75	0.80	0.90	0.90	0.95	1.00	1.00
Arlingclose Central Case	2.75	2.80	2.90	2.95	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80
Downside risk	-0.20	-0.30	-0.40	-0.50	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.05
20-yr gilt yield													
Upside risk	0.30	0.40	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.05	1.05	1.05	1.05
Arlingclose Central Case	3.35	3.40	3.45	3.55	3.60	3.60	3.65	3.70	3.75	3.80	3.85	3.90	3.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.30	0.40	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.05	1.05	1.05	1.05
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.00	4.05	4.10
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Appendix B – Existing Investment & Debt Portfolio Position

	31.01.2014 Actual Portfolio £m	31.01.2014 Average Rate %
External Borrowing:		
Total External Borrowing (PWLB)	37.2	3.98
Investments:		
Direct Deposits		
- Barclays	10.0	
- Close Brothers	8.0	
- HSBC	1.0	
- Lloyds	6.0	
- NatWest	0.6	
- Nationwide	6.0	
- Svenska Handelsbanken	10.0	
Sub-total	41.6	0.81
Certificates of Deposit	0	
Money Market Funds	10.0	0.43
Other Local Authorities	16.3	0.85
Total Investments	**67.9**	**0.76**
Net Investments	**30.7**	**-**

Appendix C – Current approved counterparty list and duration limits

Long-term credit rating			Country/ Domicile	Counterparty	Maximum Duration
Moody's	**FITCH**	**S&P**			
Direct deposits (e.g. call accounts, term or notice deposits)					
A2	A	A	UK	Barclays Bank	12 months
Aa3	AA-	AA-	UK	HSBC Bank	12 months
A2	A	A	UK	Nationwide Building Society	12 months
Aa3	AA-	AA-	Sweden	Svenska Handelsbanken	12 months
A2	A	A	UK	Lloyds TSB	6 months
A3	A	-	UK	Close Brothers	100 days
Aa3	AA-	AA-	UK	Goldman Sachs International Bank	100 days
A3	A-	-	UK	Leeds Building Society	100 days
A3	A	A-	UK	NatWest	overnight
A2	A	A	UK	Santander UK	overnight
Certificates of deposit					
A1	AA-	AA-	UK	Standard Chartered	12 months
Aa2	AA-	AA-	Australia	Australia and NZ Banking Group	12 months
Aa2	AA-	AA-	Australia	Commonwealth Bank of Australia	12 months
Aa2	AA-	AA-	Australia	National Australia Bank	12 months
Aa2	AA-	AA-	Australia	Westpac Banking Corp	12 months
Aa3	AA-	A+	Canada	Bank of Montreal	12 months
Aa2	AA-	A+	Canada	Bank of Nova Scotia	12 months
Aa3	AA-	A+	Canada	Canadian Imperial Bank of	12 months
Aa3	AA	AA-	Canada	Royal Bank of Canada	12 months
Aa1	AA-	AA-	Canada	Toronto-Dominion Bank	12 months
Aa3	AA-	AA-	Finland	Nordea Bank Finland	12 months
A2	A+	A	Germany	Deutsche Bank AG	12 months
Aaa	AAA	AAA	Netherland	Bank Nederlandse Gemeenten	12 months
Aa2	AA-	AA-	Netherland	Rabobank	12 months
Aa3	A+	A+	US	JP Morgan Chase Bank	12 months
Aa3	A+	AA-	Finland	Pohjola Bank	6 months
Aa1	AA-	AA-	Singapore	DBS	6 months
Aa1	AA-	AA-	Singapore	Oversea Chinese Banking	6 months
Aa1	AA-	AA-	Singapore	United Overseas Bank	6 months
A2	A+	A	Germany	Landesbank Hessen-Thuringen	100 days
A2	A+	A+	Netherland	ING Bank	100 days
A1	A	A	Switzerlan	Credit Suisse	100 days

Long-term credit rating			Country/ Domicile	Counterparty	Maximum Duration
Moody's	**FITCH**	**S&P**			
A2	A+	A+	France*	BNP Paribas	Suspended
A2	A	A	France*	Credit Agricole CIB/SA	Suspended
A2	A	A	France*	Societe Generale	Suspended

* Investing with French Banks is currently suspended as France does not currently meet the minimum sovereign rating of AA-

Appendix D - Prudential Indicators 2014/15

The Local Government Act 2003 requires the OPCC to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the OPCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The OPCC's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme report.

Capital Expenditure and Financing	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	**8.9**	**14.1**	**5.4**	**4.4**
Total Expenditure				
Capital receipts	2.8	6.9	1.5	0.5
Government Grants	2.7	2.8	2.8	2.8
Capital payments reserve	0.0	0.0	0.0	0.0
Revenue contributions	1.7	0.2	0.2	0.2
Capital contributions	0.0	0.0	0.0	0.0
Total Financing	**7.2**	**9.9**	**4.5**	**3.5**
Prudential borrowing	1.7	4.2	0.9	0.9
Total Funding	**1.7**	**4.2**	**0.9**	**0.9**
Total Financing and Funding	**8.9**	**14.1**	**5.4**	**4.4**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the OPCC's underlying need to borrow for a capital purpose.

	31.03.14 Revised £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Capital Financing Requirement	47.4	49.0	47.2	45.1

The CFR is forecast to fall over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the OPCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.14 Revised £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	37.2	36.0	34.2	33.0
Finance leases	0	0	0	0
Total Debt	37.2	36.0	34.2	33.0

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the OPCC's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the OPCC's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the OPCC's debt.

Operational Boundary	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	60	60	60	60
Other long-term liabilities	5	5	5	5
Total Debt	65	65	65	65

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the OPCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	75	75	75	75
Other long-term liabilities	5	5	5	5
Total Debt	80	80	80	80

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	1.11	1.20	1.19	1.32

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual band D Council Tax	0.21	0.23	0.23

Adoption of the CIPFA Treasury Management Code: The OPCC adopted the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2011 Edition on 18 February 2010

Appendix E – Annual Minimum Revenue Provision Statement 2014/15

Where the OPCC finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the OPCC to have regard to the [Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the DCLG Guidance) most recently issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The DCLG Guidance requires the OPCC to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2014/15: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for supported capital expenditure if the OPCC chooses).

The OPCC will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.