The Nottinghamshire Office of The Police and Crime Commissioner Treasury Management Strategy including Minimum Revenue Provision Policy and Annual Investment Strategy 2013-14

1 INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (NOPCC) 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 needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Police and Crime Commissioner's (PCC) 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 borrowing need, and longer term cash flow planning to ensure that the NOPCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet NOPCC risk or cost objectives.

The responsible officer for treasury management is Chief Finance Officer to the Police & Crime Commissioner (CFO)

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 polices, estimates and actuals.

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

- the capital plans, prudential indicators and borrowing plans.
- 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.
- an investment strategy (the parameters for managing investments)

A mid year treasury management report – This will update the PCC with the capital position regarding capital, and amend prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.

An Annual Treasury Report – This compares the estimates of prudential and treasury indicators from the strategy with actual operations during the year.

Scrutiny

The responsibility for scrutiny lies with the PCC supported by the Audit and Scrutiny Panel.

1.3 Treasury Management Strategy for 2013-14

The strategy for 2013-14 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the NOPCC.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy.
- 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 that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the PCC who is responsible for scrutiny. The PCC was elected to Office on the 22nd November 2012 and training plans are being developed.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The NOPCC uses Sector as its external treasury management advisors, but 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.

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2013-14 – 2016-17

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, to give an 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 PCC is asked to approve the capital expenditure forecasts, excluding other long term liabilities, such as Private Finance Initiatives (PFI) and leasing arrangements which already include borrowing arrangements. The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Capital Expenditure £m	2011-12 Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Total	5.164	9.232	7.856	4.748	2.761	1.355
Financed by:						
Capital receipts	-0.241	-0.900	-1.658	-2.840	0	0
Capital grants	-2.080	-1.890	-1.714	-1.714	-1.714	-1.355
Previously financed		-2.776				
Net financing need	**2.843**	**3.666**	**4.484**	**0.194**	**1.047**	**0**

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

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the underlying borrowing need. Capital expenditure, which has not immediately been met by receipts, grants or reserves, will increase the CFR. The CFR is reduced by the Minimum Revenue Provision (MRP), which is a statutory annual revenue charge. The MRP broadly reduces the borrowing need in line with each assets life.

The CFR includes PFI schemes and finance leases (Long term liabilities). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so additional borrowing is not required.

The PCC is asked to approve the following CFR projections:

£m	2011-12 Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Capital Financing Requirement						
Total CFR	47.046	48.799	50.934	48.446	46.801	44.074
Movement in CFR		**1.753**	**2.135**	**0**	**0**	**0**

Movement in CFR represented by						
£m	**2011-12 Actual**	**2012-13 Estimate**	**2013-14 Estimate**	**2014-15 Estimate**	**2015-16 Estimate**	**2016-17 Estimate**
Net financing need for the year (above)		3.712	4.484	0	0	0
Less MRP/VRP and other financing movements		-1.959	-2.349	-2.682	-2.692	-2.727
Movement in CFR		**1.753**	**2.135**	**-2.682**	**-2.692**	**-2.727**

2.3 Minimum Revenue Provision (MRP) policy

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). Additional voluntary payments are also allowed. (voluntary revenue provision - VRP).

Communities and Local Government regulations have been issued which require the PCC to approve an MRP Statement in advance of each year. A variety of options are available to the PCC, as long as there is a prudent provision.

The PCC is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- The **CFR method** (option 2), providing for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be;

- The **Asset life method** (option 3) based on the estimated life of the assets,this option reduces the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

2.4 Core funds and expected investment balances

The core funds available for investment comprise funds and reserves set aside for future needs and unspent capital receipts. Detailed below are estimates of the year end balances for each resource. Day to day cash flow balances are also impacted by expenditure and income timings.

Year End Resources £m	2011-12 Actual £m	2012-13 Estimate £m	2013-14 Estimate £m	2014-15 Estimate £m	2015-16 Estimate £m	2016-17 Estimate £m
General Reserves	7.083	7.083	7.083	7.083	7.083	7.083
Earmarked Reserves	13.153	15.991	17.806	18.521	18.636	18.755
Capital receipts Reserve	0.900	1.658	2.840	0	0	0
Provisions	2.712	2.712	2.712	2.712	2.712	2.712
Other	-4.977	-5.111	-5.111	-5.111	-5.111	-4.752
Total core funds	**18.871**	**22.333**	**25.333**	**23.205**	**23.320**	**23.439**
Working capital*	**8.137**	**7.859**	**4.615**	**5.191**	**3.109**	**0.614**
Under/over borrowing	-12.626	-10.649	-8.587	-6.323	-4.241	-2.105
Expected investments	**14.382**	**19.543**	**21.361**	**22.073**	**22.188**	**21.948**

*Working capital balances shown are estimated year end; these may be higher mid year

2.5 Affordability prudential indicators

The PCC is required to manage finances prudently including capital investment. These prudential indicators assess the affordability of the capital investment plans. They show the impact of the capital expenditure plans on overall finances.

The PCC is recommended to approve the following indicators:

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 costs net of investment income) against the net revenue stream.

%	2011-12 Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Ratio	1.4	1.5	1.8	2.0	2.0	2.0

The estimates of financing costs include existing commitments and the proposals within this report.

2.7 Incremental impact of capital investment decisions on council 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. This includes the level of Government revenue grant, which is not available for 2014-15 onwards.

Incremental impact of capital investment decisions on the Band D Council tax

£	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Council tax - Band D	0.00	2.09	3.75	4.04	4.41

BORROWING

The treasury management function ensures that the PCC's cash is organised in accordance with relevant professional codes, so that sufficient cash is available to meet the capital expenditure plans set out in Section 2. This involves both the organisation of the cash flow and, arranging appropriate borrowing for capital requirements.The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions.

2.8 Current portfolio position

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

£m	2011-12 Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
External Debt						
Debt at 1 April	27.082	31.686	35.352	39.611	39.388	39.825
New Borrowing	10.000	5.000	5.800	1.500	2.100	1.000
Borrowing Repaid	-5.396	-1.334	-1.541	-1.723	-1.663	-1.591
Movement in Borrowing	4.604	3.666	4.259	-0.223	0.437	-0.591
Debt at 31 March	31.686	35.352	39.611	39.388	39.825	39.234
Capital Financing Requirement	47.046	48.799	50.934	48.446	46.801	44.074
Other Long Term Liabilities (OLTL)	-2.735	-2.735	-2.735	-2.735	-2.735	-2.735
Underlying Borrowing Need	44.311	46.064	48.199	45.711	44.066	41.339
Under / (over) borrowing	12.625	10.712	8.588	6.323	4.241	2.105
Total investments at 31 March						
Investments*	**14.382**	**12.000**	**17.000**	**17.000**	**19.000**	**21.000**
Investment change	9.397	-2.382	5,000	0	2,000	2,000
Net Debt	**17.304**	**23.352**	**22.611**	**22.388**	**20.825**	**18.234**

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

The CFO reports that the NOPCC 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 the budget report.

*There is a current shortfall between funding and required expenditure in 2015-16 and 2016-17 which may require the use of reserves to balance the budget. This has not been accounted for above.

2.9 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.

Operational boundary £m	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Total	55.000	50.000	50.000	50.000	50.000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set and revised by the PCC. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Public Authority plans, or those of a specific Public Authority, although this power has not yet been exercised.

The PCC is recommended to approve the following authorised limit:

Authorised limit £m	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
Total	65.000	60.000	60.000	60.000	60.000

2.10 Prospects for interest rates

The NOPCC has appointed Sector as its treasury advisor and part of their service is to assist in formulating a view on interest rates. The following table gives the Sector predictions.

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

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

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

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

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

2.11 Borrowing strategy

The NOPCC is currently maintaining an under-borrowed position. This means that the capital borrowing need (Capital Financing Requirement), has not been fully funded with loan debt. Cash supporting the PCC's reserves, balances and cash flow has been utilised. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

With this background and the risks within the economic forecast, caution will be adopted in the 2013-14 treasury operations. The CFO will monitor interest rates 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,* (e.g. arising from an accelerated increase in world economic activity or a sudden increase in inflation risks), then the portfolio position will be re-appraised and fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to the PCC at the next available opportunity.

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

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

£m	2013-14	2014-15	2015-16	2016-17
Interest rate exposures				
	Upper	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%	100%
Limits on fixed interest rates:				
• **Debt only**	100%	100%	100%	100%
• **Investments only**	100%	100%	100%	100%
Limits on variable interest rates				
• **Debt only**	50%	50%	50%	50%
• **Investments only**	100%	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2013-14				
		Lower	**Upper**	
Under 12 months		0%	30%	
12 months to 2 years		0%	40%	
2 years to 5 years		0%	50%	
5 years to 10 years		0%	70%	
10 years and above		0%	100%	

2.12 Policy on borrowing in advance of need

The NOPCC 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.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

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.

2.13 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 PCC at the earliest opportunity.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy

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

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

Furthermore, the NOPCC's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the CFO will engage with its advisors to maintain a monitor on market pricing such as Credit Default Swaps (CDS) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors.

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

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

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

Investment instruments identified for use in the financial year are listed in Appendix A under the 'specified' and 'non-specified' investments categories. Counterparty limits are also set.

3.2 Creditworthiness policy

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of bands which indicate the relative creditworthiness of counterparties. The NOPCC has used this information to determine the following limits for counterparties. Typically the minimum credit ratings criteria the NOPCC use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the NOPCC will only use banks which:
- are UK banks; and/or
- are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA
- and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
- Short term – F1,P-1,A-1
- Long term – A
- Viability / financial strength – BB- (Fitch) C- (Moody)
- Support – 1 (Fitch only)
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – Barclays Bank (NOPCC's own banker for transactional purposes) although if ratings fall balances will be minimised.
- Other institutions
- Bank subsidiary and treasury operation -. Will be used where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

The above limited to £5m up to 3 months under current market conditions. Where the financial markets start to make an improvement the duration of the investment can be increased with the CFO's prior approval, under delegated powers, to no more than 12 months.

Where the Bank is A rated (long term)(lowest common denominator) this is limited to £2m for up to 1 month.

- Building societies will be used if it meets the ratings for banks outlined above.
- Money market funds with instant access – Limited to £7m in any one MMF, with delegated authority for the CFO to approve temporary increase to £10m.
- Money market funds with up to 7 day notice access – Limited to £3m in any one MMF, with delegated Authority for the CFO to approve temporary increase to £5m.
- Local authorities, parish other PCC's etc – Limited to £5m with each for up to 12 months. The CFO under delegated authority can extend either the duration or the financial limit in specific cases.
- UK Government (including gilts and the DMADF) – up to a limit of £10m up to 12 months.

	Fitch Long term Rating (or equivalent)	**Money Limit**	**Time Limit**
Banks 1 category high quality	AAA	£5m	3mths/1yr
Banks 1 category medium quality	AA-	£5m	3ths/1yr
Banks 1 category lower quality	A	£2m	1 month
Banks 2 category – part nationalised	N/A	£5m	3mths/1yr
Banks 3 category – Authority's banker (not meeting Banks 1)	AA	£5m	1 day
Other institutions limit	-	£5m	3 months
UK Govt – DMADF, Treasury Bills	AAA	Unlimited	6 months
Local authorities	N/A	£5m	1yr
Money Market Funds (instant)	AAA	£5-10m	None
Money Market Funds (notice)	AAA	£3-5m	None

All credit ratings will be monitored on a daily basis. The NOPCC is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

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

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

3.3 Country limits

Consideration will be made regarding the country exposure of the PCC's investments. This will be influenced by the sovereign rating of the country with preference being given to countries of higher ratings, and a minimum of AA- rating. The current sovereign ratings are included in Appendix A. The general credit ratings of the Banks (3.2) will apply. Additionally:

- A maximum of 25% / £5m deposited with any non-UK country at any time.
- Limits in place above will apply to a group of companies.

3.4 Investment strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (less than 12 months).

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

- 2012-13 0.50%
- 2013-14 0.50%
- 2014-15 1.00%
- 2015-16 1.50%

There are risks to these forecasts . If economic growth remains weaker for longer than expected then rates will remain lower. However, should the pace of growth pick up more sharply than expected the rates may be higher.

The benchmark suggested by Sector for investment earnings rates for the next five years are as follows:

2012-13	0.50%
2013-14	0.50%
2014-15	0.70%
2015-16	1.50%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 364 days				
£m	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Principal sums invested > 364 days	£3m	£3m	£3m	£3m

3.5 Investment risk benchmarking

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

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

- 0.06% historic risk of default when compared to the whole portfolio.

Liquidity – it is sought to maintain:

- Bank overdraft not to exceed - £0.5m.
- When investments are being made at least £2m is available on instant access.
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months.

Yield - the yield benchmarks are

- Investments – internal returns above the 7 day LIBID rate

3.6 End of year investment report

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

4 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is the Chief Financial Officer to the PCC. The CFO is responsible for the following:

- 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.

APPENDIX A Approved countries for investments December 2012

Based on lowest available rating

AAA

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

AA+

- France
- Hong Kong
- U.S.A.

AA

- Abu Dhabi
- Qatar
- UAE

AA-

- Belgium
- Japan
- Saudi Arabia