<u>Treasury Management Strategy Statement and Investment Strategy 2015-16 to 2018-19</u>

<u>(approved by the Strategic Executive Board on 16 February 2017)</u>

1. Background

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 local 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 Welsh Government's (WG's) Investment Guidance.

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

- revisions to Treasury Management Strategy and Prudential Indicators for 2016-17
- Treasury Management Strategy for 2017-18
- Annual Investment Strategy for 2017-18
- Prudential Indicators for 2016-17, 2017-18 and 2018-19
- MRP Statement.

1.3 Treasury Management is about the management of risk. The Police Crime Commissioner (the Commissioner) is responsible for its treasury decisions and activity. No treasury management activity is without risk.

1.4 The Commissioner adopted the CIPFA Treasury Management Code on the 22 November 2012 and is re-affirmed in the 2016-17 Prudential Indicators.

1.5 The current Code and guidance in operation is the *"Treasury Management in the Public Services: Code of Practice 2011"* and requires the Police and Crime Commissioner (the Commissioner) to approve the treasury management strategy and annual investment strategy before the start of each financial year.

1.6 In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Commissioner approve an investment strategy before the start of each financial year. In accordance with the guidance, the Commissioner will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly.

1.7 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Capital Financing Requirement

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Commissioner's Treasury Management activities.

2.2 The current level of debt and investments is set out at ***Appendix A***.

2.3 The Commissioner is able to borrow funds in excess of the current level of its CFR up to the projected level in 2019-20. The Commissioner is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

2.4 The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2015-16 Actual £m	**2016-17 Estimate £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
General Fund CFR	26.559	26.702	27.726	28.052	25.897
Less: Existing Profile of Borrowing and Other Long Term Liabilities	15.093	13.922	12.703	11.431	10.103
Cumulative Maximum External Borrowing Requirement	**11.466**	**12.780**	**15.023**	**16.621**	**15.794**
Usable Reserves	**41.065**	**39.186**	**32.060**	**22.144**	**22.194**
Cumulative Net Borrowing Requirement/(Investments)	**-29.599**	**-26.406**	**-17.037**	**-5.523**	**-6.400**

2.5 The figures above indicate that the CFR is fairly constant over the period to 2019-20. The level of reserves will reduce but they are considered sufficiently adequate to prevent the need to further borrow from external institutions. This strategy will be reviewed if borrowing rates become favorable. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Commissioner's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Commissioner expects to comply with this recommendation.

3. Interest Rate Forecast

3.1 Arlingclose, the Treasury Management advisors, forecast the interest rate to remain at 0.25% during 2017-18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Therefore further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union. Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. QE in support of the UK economy in 2017-18 remains a possibility, to keep long-term interest rates low.

3.2 The economic and interest rate forecast provided by the treasury management advisor is attached at ***Appendix C***. The strategy will be re appraised from time to time in response to evolving economic, political and financial events.

3.3 For the purpose of setting the budget it has been assumed that new investments will be made at an average of 0.4% which is the current average rate being achieved and that any long term loans will be borrowed at 4.0%.

4. Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in ***Appendix C*** indicates that an acute difference between short and longer term interest rates is expected to continue in the medium term. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the current financial environment.

4.2 As indicated in Table 1, there is a gross borrowing requirement of £15.0m in 2017-18 but there are sufficient balances and reserves to avoid the need for external borrowing. By essentially off setting borrowing requirements by the use of balances it is possible to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances.

5. Sources of Borrowing and Portfolio implications

5.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Commissioner will keep under review the following borrowing sources:

- Internal
- Public Works Loan Board (PWLB) and any successor body
- UK Local authorities
- UK public and private sector pension funds (except Gwynedd Pension Fund)
- Commercial banks and building societies authorised to operate in the UK
- European Investment Bank
- Capital markets (stock issues, commercial paper and bills)
- Structured finance

In addition, capital financing may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and Finance leasing
- Hire Purchase
- Private Finance Initiatives
- Sale and Leaseback

The Commissioner has previously raised all of his long-term borrowing from the PWLB but continues to investigate other borrowing sources such as local authority loans and bank loans to ensure that the most favourable rates are secured.

5.2 The Commissioner's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered. There is currently no variable rate borrowing but there are a number of short dated loans.

5.3 At the end of this financial year the Commissioner will hold £1.9 million of loans a decrease of £0.6 million on the previous year and as part of the strategy for funding previous years' capital programmes. Given the significant cuts to public expenditure and in particular to local government funding, the Commissioner's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. 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 either use internal resources, or to borrow short-term loans instead.

5.4 By doing so, the Commissioner 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 borrowing at long term fixed rates in 2017-18 with a view to keeping future interest rates low even if this causes additional cost in the short term. Alternatively the Commissioner may consider forward starting loans where the interest rate is fixed in advance but the cash is received in later years. This would enable certainty of cost without suffering a cost of carry over any intervening period. In addition the Commissioner may borrow short term loans to cover unplanned cash flow shortages.

6. Debt Rescheduling

6.1 The Commissioner's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

6.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertaken meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

6.3 Borrowing and rescheduling activity will be reported to the Strategic Executive Board (SEB) in the Annual Treasury Management Report and the periodic treasury management reports presented to SEB.

7. Annual Investment Strategy

7.1 In accordance with Investment Guidance issued by the Welsh Government and best practice this Commissioner's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Commissioner's investments followed by the yields earned on investments is important but are secondary considerations. Where balances are expected to be invested for more than one year, the Commissioner will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

7.2 If the UK enters into a recession in 2017-18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

7.3 The Commissioner (through his CFO) and his advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Commissioner.

7.4 The Commissioner holds invested funds which represent income received in advance of expenditure, plus balances and reserves held. The investment balances over the last 12 months have ranged between £23 million and £47 million and these levels will reduce over the forthcoming year with implementation of the planned use of reserves.

7.5 The Commissioner uses cash flow forecasting to determine the maximum period for which funds may be prudently committed. This forecast is compiled on a prudent basis to minimise the risk to the Commissioner of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

7.6 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the Welsh Government.

7.7 Specified investments are sterling denominated investments with a maximum maturity of one year. They are invested with either the UK government, UK local authority and are a body that meets the "high credit quality" as determined by the Commissioner and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

7.8 The types of investments that will be used and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

7.8 It is understood that credit ratings are a good predictor of investment default but not perfect. Full regard is therefore also given to other sources of information on the credit quality of organisations in which we invest. The Commissioner (through his CFO) and advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions and securities (minimum long term rating of BBB+ or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- Financial statements
- Information on potential government support
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern. Details of the countries and institutions that meet the criteria for term deposits, bonds, Certificates of Deposit (CDs) and call accounts are held by the Finance Department and are in accordance with the approved investment counter parties and limits in table 3 below.

It remains the policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

Where an entity's credit rating comes under review for possible downgrade as has happened from time to time and hence their rating falls below the approved rating criteria, then the Commissioner will not make any further new investments, recall any existing investments which can be at no cost and consider the recall or sale of other investments with the affected counterparty.

7.9 **Commissioner's Banker** – The Commissioner banks with HSBC. At the current time, it *does* meet the minimum credit criteria of BBB+ (or equivalent) long term.

8. Investment Strategy

8.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

8.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Commissioner aim is to continue to diversify into more secure and/or higher yielding asset classes during 2017-18.

8.3 Both the CIPFA Code and the WG Guidance require the Commissioner to invest his funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Commissioner'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.

8.4 The Commissioner may invest his surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits per our treasury advisors throughout the year.

Table 3: Approved investment Counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited	n/a
AAA	£4m	£7m	£7m	£7m
AA+	£4m	£7m	£7m	£7m
AA	£4m	£7m	£7m	£7m
AA-	£4m	£7m	£7m	£7m
A+	£4m	£7m	£7m	£7m
A	£4m	£7m	£7m	£7m
A-	£4m	£7m	£7m	£7m
BBB+	£2m	£4m	£5m	£4m
HSBC[1]	£10m	£10m	n/a	n/a
Unrated Local Authorities	n/a	n/a	£7m	n/a
Pooled Funds	£4m per fund			

1 These are the Commissioner's bankers and are currently rated AA- by the credit rating agencies and are currently the highest rated UK banking institution.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner's investment objectives will be monitored regularly.

8.5 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 Commissioner will restrict his 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 Commissioner's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills 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.

9 Policy on Use of Financial Derivatives

9.1 The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 In the absence of any legislative power, the Commissioner's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

10. 2016-17 Minimum Revenue Provision (for debt re payment) Statement

10.1 The Local Authorities (Capital Finance and Accounting)(Wales)(Amendment) Regulations 2008 (SI 2008/588 (W.59)) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1B) of the Local Government Act 2003.

10.2 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.

Capital expenditure incurred during 2016-17 will not be subject to a MRP charge until the year following the asset becoming operational.

10.3 MRP in 2016-17: 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 Commissioner chooses).

10.4 The Commissioner will apply Option 2 in respect of historical supported capital expenditure and Option 3 in respect of unsupported capital expenditure which is calculated on a straight line basis.

10.5 If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to SEB at that time.

10.6 MRP in respect of leases brought on to the Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

11 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

11.1 Treasury activity is monitored daily and reported to SEB as required. The Prudential Indicators will be monitored through the year and reported as below:

A report will be made to the SEB on treasury management activity / performance and Performance Indicators as follows:

(a) Periodically against the strategy approved for the year.

(b) An outturn report on its treasury activity no later than 30 September after the financial year end to be reported to SEB.

(c) The Audit Committee will be responsible for the scrutiny of treasury management policies and activity.

12 Other Items

12.1 **Training**

CIPFA's Code of Practice requires the responsible officer to ensure 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. Staff involved in Treasury Management will have regular training days and training needs will be assessed as part of their regular reviews.

12.2 **Treasury Management Advisors**

The Commissioner and the Finance staff use Arlingclose as Treasury Management Advisors and receive the following services:

- Credit advice
- Investment, debt and capital finance advice
- Technical advice
- Economic & interest rate forecasts

– Workshops and training events

The Commissioner maintains the quality of the service with its advisors by holding quarterly meetings and reviewing arrangements on a regular basis.

12.3 Other options considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities or Police and Crime Commissioners to adopt. The above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Existing Investment & Debt Portfolio Position (Section 2.2)

	31/03/17 Actual Portfolio (with estimated movements up to the end of year and subject to end of year checks) £m
External Borrowing:	
Fixed Rate – PWLB	1.933
Fixed Rate – Market	0.00
Variable Rate – PWLB	0.00
Variable Rate – Market	0.00
Total External Borrowing	1.933
Other Long Term Liabilities:	
- PFI	11.989
- Finance Leases	0.00
Total Gross External Debt	13.922
Investments:	
Managed in-house	
- Short-term monies (Deposits/ monies on call /MMFs)	17.563
- Long-term investments	0.00
Managed externally	
- By Fund Managers - Pooled Funds *(please list)*	0.00
Total Investments	17.563
Net Debt	-3.641

Appendix B
Prudential and Treasury Management Indicators 2016-17 to 2019-20

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Police and Crime Commissioner has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, it should be ensured that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

There was no difficulty meeting this requirement in 2015-16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2016-17 Approved £m	2016-17 Revised £m	2017-18 Revised £m	2018-19 Estimate £m	2019-20 Estimate £m
Total	**17.048**	**11.499**	**18.461**	**4.705**	**2.705**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2016-17 Approved £m	2016-17 Revised £m	2017-18 Revised £m	2018-19 Estimate £m	2019-20 Estimate £m
Capital receipts	2.244	0	5.423	0.231	0.252
Government Grants	1.100	0.541	0.727	0.462	0.462
Revenue contributions and Usable Reserves	1.666	8.569	9.104	1.212	1.691
Total Financing	5.010	9.110	15.254	1.905	2.405
Supported borrowing	0	0	0	0	0
Unsupported borrowing	3.300	2.389	3.207	2.800	0.300
Total Funding	3.300	2.389	3.207	2.800	0.300
Total Financing and Funding	**8.310**	**11.499**	18.461	4.705	2.705

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 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. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016-17 Approved %	2016-17 Revised %	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %
Total	**2.77**	**2.66**	**2.64**	**2.84**	**2.72**

5. **Capital Financing Requirement:**

5.1 The Capital Financing Requirement (CFR) measures the underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	**2016-17 Approved £m**	**2016-17 Revised £m**	**2017-18 Revised £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
Total CFR	29.991	26.702	**27.726**	28.052	25.897

6. **Actual External Debt:**

6.1 This indicator is obtained directly from the balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2016	**£m**
Borrowing	2.514
Other Long-term Liabilities	12.579
Total	**15.093**

7. **Incremental Impact of Capital Investment Decisions:**

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2016-17 Approved £**	**2017-18 Estimate £**	**2018-19 Estimate £**	**2019-20 Estimate £**

Increase in Band D Council Tax	0.00	**1.26**	0.00	0.00

7.2 The capital plans, as estimated in forthcoming financial year, has a reducing impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts) and existing revenue budgets.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Commissioner has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Commissioner and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Commissioner. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Commissioner's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit for External Debt	**2016-17 Approved £m**	**2016-17 Revised £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
Borrowing	**21.297**	17.358	**19.670**	20.686	19.279
Other Long-term Liabilities (PFI)	**11.988**	11.988	**11.350**	10.660	9.912
Total	**33.285**	**29.346**	**31.020**	**31.346**	**29.191**

8.5 The Operational Boundary links directly to the estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	**2016-17 Approved £m**	**2016-17 Revised £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
Borrowing	**19.297**	16.008	**17.670**	18.686	17.279
Other Long-term Liabilities	**11.988**	11.988	**11.350**	10.660	9.912
Total	**31.285**	**27.996**	**29.020**	**29.346**	**27.191**

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates the principles of best practice have been adopted.

Adoption of the CIPFA Code of Practice in Treasury Management
The Police Crime Commissioner adopted the Code on the 18 April 2013 as part of setting the 2013-14 Prudential Indicators.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allows the extent of exposure to changes in interest rates to be managed. These are calculated based on limits of the net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

10.2 The upper limit for variable rate exposure has been set to ensure that there is no exposure to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	2016-17 Approved %	**2016-17 Revised %**	**2017-18 Estimate %**	**2018-19 Estimate %**	**2019-20 Estimate %**
Upper Limit for Fixed Interest Rate	100	100	**100**	100	100

Exposure					
Upper Limit for Variable Interest Rate Exposure**	50	50	**50**	50	50

** Percentages for variable rates refer to borrowing only.

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	**Benchmark level at 31/03/16 %**	**Lower Limit for 2017-18 %**	**Upper Limit for 2017-18 %**
under 12 months	23.11	0	100
12 months and within 24 months	23.11	0	100
24 months and within 5 years	53.78	0	100
5 years and within 10 years	0	0	100
10 years and within 20 years	0	0	100

12. Credit Risk:

12.1 Security, liquidity and yield, in that order, are the primary considerations when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the assessment of counterparty credit risk.

12.3 The Commissioner also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings for financial institutions and securities (minimum long term rating of BBB+ or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- Financial statements
- Information on potential government support
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms. The Commissioner has set a target of A for the portfolio average credit rating.

13. Upper Limit for total principal sums invested over 364 days:

13.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2016-17 Approved £m**	**2016-17 Revised £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
	25	**25**	**25**	**25**	**25**

Note: An allowance has had to be made on this indicator for investments of 1 year, i.e. 365 or 366 days. The Prudential Indicator requires a limit for investment over 364 days, the following additional limit is set for investments over 366 days.

Upper Limit for total principal sums invested	**2016-17 Approved £m**	**2016-17 Revised £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**

over 366 days					
	5	**5**	**5**	**5**	**5**

Appendix C – Arlingclose Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix D - Capital Programme 2016-17 to 2021-22

Ref	Description	2013-16 Project Actual	2016-17 Actual Dec-16	2016-17 Budget Jan-17	2017-18 Budget Jan-17	2018-19 Budget Jan-17	2019-20 Budget Jan-17	2020-21 Budget Jan-17	2021-22 Budget Jan-17	2016-22 6 Year Budget Jan-17	2013-20 Project Total Revised Jan-17
			£000	£000	£000	£000	£000	£000	£000	£000	£000
	Estate Programme										
1	Retentions	0	5	10	5	5	5	0	0	25	25
2	Sustainability Improvements	499	0	29	100	100	100	0	0	329	828
3	Menai Bridge Offices	0	0	100	0	0	0	0	0	100	100
4	Wrexham new DHQ and Custody	2,894	630	3,890	11,639	2,727	0	0	0	18,256	21,150
5	Wrexham new Town Center Facility	63	6	300	1,438	0	0	0	0	1,738	1,801
6	Saltney	0	0	50	0	0	0	0	0	50	50
7	Buckley	0	0	55	0	0	0	0	0	55	55
8	Flint	388	2	32	0	0	0	0	0	32	420
9	Llangollen Renevation	339	8	16	0	0	0	0	0	16	355
10	Llandudno New Police Station	450	414	1,576	724	0	0	0	0	2,300	2,750
11	Conwy	0	2	5	170	0	0	0	0	175	175
12	Tywyn Relocation	113	0	27	0	0	0	0	0	27	140
13	Holyhead Port	172	18	48	0	0	0	0	0	48	220
14	Firearms Range Training Facilities	278	30	34	0	0	0	0	0	34	312
15	Canteen (subj to Busienss Case)	0	0	0	134	0	0	0	0	134	134
16	SARC Amethyst Team Building works	97	2	13	0	0	0	0	0	13	110
17	Occupational Health Relocation	0	40	228	0	0	0	0	0	228	228
18	Archiving Facility	0	0	45	0	0	0	0	0	45	45
19	Estate Review 2	0	0	0	0	0	0	434	22	456	456
	Total Building Works	**5,293**	**1,157**	**6,458**	**14,210**	**2,832**	**105**	**434**	**22**	**24,061**	**29,354**
Ref	**Description**	**2013-16 Project Actual**	**2016-17 Actual Dec-16**	**2016-17 Budget Jan-17**	**2017-18 Budget Jan-17**	**2018-19 Budget Jan-17**	**2019-20 Budget Jan-17**	**2020-21 Budget Jan-17**	**2021-22 Budget Jan-17**	**2016-22 6 Year Budget Jan-17**	**2013-20 Project Total Revised Jan-17**
			£000	£000	£000	£000	£000	£000	£000	£000	£000
	Vehicles and Other Equipment										
20	Vehicle Purchase Replacement Programme	5,004	445	1,445	1,552	1,573	1,300	1,300	1,300	8,470	13,474
21	Ports CCTV and ANPR and equipment	41	0	188	0	0	0	0	0	188	229
22	Body Worn Video Equipment	0	39	206	0	0	0	0	0	206	206
	Total Vehicles and Other Equipment	**5,045**	**484**	**1,839**	**1,552**	**1,573**	**1,300**	**1,300**	**1,300**	**8,864**	**13,909**
	Information Technology and Communication Equipment										
23	Desk Top Replacement (Replacement Programme)	651	23	300	300	300	300	300	300	1,800	2,451
24	Network Installation (Replacement Programme)	673	670	877	0	0	0	0	800	1,677	2,350
25	Control Room Technology Replacemnt	0	591	553	1,336	0	0	0	0	1,889	1,889
26	Server Replacement	0	650	700	0	0	0	0	700	1,400	1,400
27	RMS Upgrade (Replacement Programme)	443	0	0	450	0	0	0		450	893
28	Business Systems (Replacement Programme)	31	9	145	0	0	0	0	145	290	321
29	Criminal Justice Digital Project	446	50	145	250	0	0	0	0	395	841
30	Mobiledata Project	70	86	367	363	0	0	0	0	730	800
31	Airwave replacement/ESN	62	0	0	0	0	1,000	0	0	1,000	1,062
32	Wrexham Prison IT and Connection	0	0	115	0	0	0	0	0	115	115
	Total Information Technology and Communication	**2,376**	**2,079**	**3,202**	**2,699**	**300**	**1,300**	**300**	**1,945**	**9,746**	**12,122**
	Total Capital Expenditure	**12,714**	**3,720**	**11,499**	**18,461**	**4,705**	**2,705**	**2,034**	**3,267**	**42,671**	**55,385**
	Funding of Capital Programme										
33	Home Office General Capital Grants			541	727	462	462	462	462	3,116	
34	Revenue Contribution			2,012	1,329	1,212	1,243	1,272	1,283	8,351	
35	Earmarked Reserves			6,557	7,775	0	448	0	0	14,780	
36	Capital Receipts			0	5,423	231	252	0	277	6,183	
37	Borrowing for Estates			0	2,457	2,500	0	0	0	4,957	
38	Borrowing for Replacement Programmes			2,389	750	300	300	300	1,245	5,284	
	Total Funding			**11,499**	**18,461**	**4,705**	**2,705**	**2,034**	**3,267**	**42,671**	