2018/19 Treasury Management Strategy Statement

1.0 Introduction

1.1 This Treasury Management Strategy Statement is for both:

- the Office of the Police and Crime Commissioner for Devon and Cornwall, and

- the Office of the Police and Crime Commissioner for Dorset.

1.2 The Office of the Police and Crime Commissioner (OPCC) has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the OPCC to approve a Treasury Management Strategy before the start of each financial year.

1.3 In addition, this strategy also covers elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government(MHCLG) MRP Guidance and MHCLG Investment Guidance.

1.4 This report fulfils the OPCC's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

1.5 The OPCC funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned and funding is available to meet capital expenditure plans. The successful identification, monitoring and control of risk are therefore central to the OPCC's Treasury Management Strategy.

1.6 In accordance with the MHCLG Guidance, the OPCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the OPCC's capital programme or in the level of its investment balance.

1.7 The Treasury Management Strategy is integral to the Medium Term Financial Strategy (MTFS) and this document should be read in conjunction with the report on the MTFS for 2018/19 to 2020/21.

1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

2.0 <u>External Context</u>

2.1 **Economic background**: The major external influence on the OPCC's Treasury Management Strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Although transitional arrangements are in place it may extend the period of uncertainty for several years. Economic growth is therefore forecast to remain slow throughout 2018/19.

Consumer price inflation reached 3.0% in December 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

2.2 **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the OPCC; returns from cash deposits however remain very low.

2.3 **Interest rate forecast:** The OPCC's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

2.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

2.5 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.90%, and that new long-term loans will be borrowed at an average rate of 2.8%. Long-term loans will be required to support the Devon and Cornwall capital programme. This will not be the case for Dorset's capital programme as it will supported by other funding.

3.0 <u>Treasury Management Strategy</u>

3.1 On 31st March 2017 the OPCC for Devon and Cornwall held £61.515m of investments and £30.277m of external borrowing. The OPCC for Dorset held £16.494m of investments and no external borrowing.

3.2 This is set out in further detail in Appendix B 1. Forecast changes in these sums are shown in the balance sheet analysis for each Force in Appendix B 2.

3.3 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.

3.4 The OPCC for Devon and Cornwall has an increasing CFR due to the capital programme and will therefore be required to borrow externally by £22m over the forecast period.

3.5 The OPCC for Dorset has a decreasing CFR, reflecting the repayment of the PFI liabilities, and other statutory capital financing charges (minimum revenue provision).

3.5 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. Appendix B 2 shows that the OPCC for each Force expects to comply with this recommendation during 2018/19.

4.0 Borrowing Strategy

4.1 The OPCC for Devon and Cornwall currently holds £30.277m of PWLB loans. The OPCC for Dorset currently holds £31.586m of PFI loans and £1.325m of other long term loans.

4.2 The Devon and Cornwall balance sheet forecast shown in Appendix B 2 shows that the OPCC does not expect to need to borrow in 2018/19. The OPCC may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £47m.

4.3 **Objectives:** The OPCC chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

4.4 **Strategy:** Given the significant cuts in funding, the OPCC 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.

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 or short term 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 modestly. Arlingclose will assist the OPCC with this 'cost of carry' and breakeven analysis. Its output may determine whether the OPCC borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the OPCC may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the OPCC may borrow short-term loans to cover unplanned cash flow shortages.

4.5 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK

- UK public and private sector pension funds (except the Devon and Cornwall Police Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The OPCC for Devon and Cornwall has previously raised all of its long term borrowing from PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.6 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Police and Crime Commissioner.

4.7 **Short-term and variable rate loans**: These 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.

4.8 **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. Other lenders may also be prepared to negotiate premature redemption terms. The OPCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.0 Investment Strategy

5.1 The OPCC for each Force holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the OPCC's investment balance for Devon and Cornwall has ranged between £9m and £72m and the OPCC for Dorset investment balance has ranged between £4m and £33m. Similar levels are expected to be maintained by each Force in the forthcoming year.

5.2 **Objectives:** Both the CIPFA Code and the MHCLG 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 of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the OPCC 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.

5.3 **Strategy:** Given the increasing risk and low returns from short-term unsecured bank investments, the OPCC aims to diversify into more secure and/or higher yielding asset classes during 2018/19. The majority of the OPCC's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will represent a change in strategy over the coming year.

5.4 **Approved counterparties:** The OPCC's may invest its surplus funds with any of the counterparty types shown in Appendix C 1, subject to the cash limits (per counterparty) and the time limits shown. Appendix C 2 contains more detailed information on specific counterparties and limits.

5.5 **Credit rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.6 **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. See below for arrangements relating to operational bank accounts.

5.7 **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 higher 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.

5.8 **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 for up to 50 years.

5.9 **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.

5.10 **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

5.11 **Pooled funds:** Shares in diversified investment vehicles consisting of 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 OPCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the OPCC's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the Police and Crime Commissioner.

5.12 **Operational bank accounts:** The OPCC for Devon and Cornwall operational bank account is held with Barclays and the OPCC for Dorset operational bank account is held with NatWest. The OPCC's may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £6m per bank for Devon and Cornwall and £1.5m for Dorset. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the OPCC's maintaining operational continuity.

5.13 **Risk assessment and credit ratings**: 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.

Where a credit rating agency announces that a credit 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.

5.14 **Other information on the security of investments**: The OPCC's understand 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.

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 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.

5.15 **Specified investments**: The MHCLG 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".

The OPCC's defines "high credit quality" organisations and securities 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. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

5.16 **Non-specified investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The OPCC's do 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 Appendix D.

5.17 **Investment limits**: The OPCC's revenue reserves available to cover investment losses are forecast to be £42.4m for Devon and Cornwall and £8.4m for Dorset on 31st March 2018. In order that no more than 14% and 18% of available reserves for Devon and Cornwall and Dorset respectively will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6m for Devon and Cornwall and £1.5m for Dorset for unsecured funds. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix E.

5.18 **Liquidity management**: The OPCC uses purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the OPCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the OPCC's medium term financial plan and cash flow forecast.

5.19 **Negative interest rates:** If the UK enters into a recession in 2018/19, 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.

6.0 <u>Non-Treasury Investments</u>

6.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLGGuidance, the OPCC may also purchase property for investment purposes and may also make loans and investments for service purposes.

6.2 Such loans and investments will be subject to the OPCC's normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy.

7.0 <u>Prudential Indicators</u>

7.1 The Local Government Act 2003 requires the OPCC to have regard to the CIPFA 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 the OPCC's are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the OPCC's has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

7.2 **Estimates of Capital Expenditure:** The OPCC's planned capital expenditure and financing is shown in Table 1 in Appendix F as well as the **estimates of Capital**

Financing Requirement: The Capital Financing Requirement (CFR) (Table 2 in Appendix F) measures the OPCC's underlying need to borrow for a capital purpose.

7.3 Devon and Cornwall CFR is forecast to increase in line with the requirements of the capital programme whilst Dorset's CFR is forecast to reduce in line with the PFI and debt repayments and Minimum Revenue Provision.

7.4 **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 which is shown in Appendix F Table 3.

7.5 Total debt for both OPCC's is expected to remain below the CFR during the forecast period.

7.6 **Operational Boundary for External Debt:** The operational boundary shown in Table 4 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.

7.7 **Authorised Limit for External Debt:** The authorised limit shown in Table 5 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.

7.8 **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. This is shown in Table 6.

7.9 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels and is shown in Table 7. 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.

7.10 **Adoption of the CIPFA Treasury Management Code:** The OPCC has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice 2011. It fully complies with the Codes recommendations.

8.0 Treasury Management Indicators

8.1 The OPCC measures and manages its exposures to treasury management risks using the following indicators.

8.2 **Security:** The OPCC's have adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A+

8.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

	Devon and Cornwall Target	**Dorset Target**
Minimum limit at less than 31 days duration	£12m	£9m
Minimum limit overnight	£4m	£3m

8.4 **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 amount of net interest payable will be:

	Devon and Cornwall	**Dorset**
Upper limit on fixed interest rate exposure	100%	100%
Upper limit on variable interest rate exposure	30%	30%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. The limits set above means that 31% to 100% of borrowing will be at rates fixed until the loan is repayable, while no more than 30% will be at variable rates. All of the variable rate borrowing will be internal borrowing.

8.5 **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	10%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	60%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

8.6 **Principal sums invested for periods longer than 365 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 long-term principal sum invested to final maturities beyond the period end will be:

OPCC for Devon and Cornwall	2018/19	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£20m	£10m	£5m	£0m

OPCC for Dorset	2018/19	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£3m	£1m	£0m	£0m

9.0 <u>Other Items</u>

9.1 There are a number of additional items that the OPCC's are required by CIPFA or MHCLG to include in its Treasury Management Strategy.

9.2 **Policy on the use of financial derivatives:** In the absence of any explicit legal power to do so, the OPCC's will not use standalone financial derivatives (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.

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

Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

9.4 **Investment advisers:** The OPCC's have appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

9.5 **Investment of money borrowed in advance of need**: The OPCC's 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's are 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 OPCCs overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £47m. The maximum period between borrowing and expenditure is expected to be two years, although the OPCC's are not required to link particular loans with particular items of expenditure.

9.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix G. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the OPCC's to have regard to the MHCLG Guidance on Minimum Revenue Provision most recently issued in 2012.

10.0 <u>Financial Implications</u>

10.1 The budget for investment income in 2018/19 is £0.383m for Devon and Cornwall and £0.160m for Dorset, based on an average investment portfolio of £42.5m and £17.8m respectively at an interest rate of 0.90%. The budget for debt interest payable in 2018/19 is £1.273m for Devon and Cornwall. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

11.0 <u>Other Options Considered</u>

11.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the Police and Crime Commissioner believes that 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	Lower chance of losses from credit related defaults, but any such losses may 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 any such losses may 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 may 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 may 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 may be less certain

12.0 <u>Governance Arrangements</u>

12.1 The Treasury Management governance arrangements for both Forces is set out in Appendix H.

Appendix A

Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK’s fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Appendix A continued

Arlingclose Economic & Interest Rate Forecast November 2017

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

Appendix A continued

Arlingclose Economic & Interest Rate Forecast November 2017

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B 1

Treasury Management Strategy - Existing Investment & Debt Portfolio Position

OPCC for Devon and Cornwall	31st March 2017 Actual Portfolio £'000
External Borrowing:	
PWLB	(30,277)
Total External Borrowing	**(30,277)**
Treasury Investments:	
Banks and building societies	6,500
Money Market Funds	22,719
Covered Bonds	13,475
Corporate Bonds	121
Certificates of Deposit	6,700
Local Authorities	8,000
Pooled Funds	4,000
Total Treasury Investments	**61,515**
Net Investments	**31,238**

OPCC for Dorset	31st March 2017 Actual Portfolio £'000
External Borrowing:	
Total External Borrowing	**0**
Other Long-Term Liabilities:	
Private Finance Initiative	(31,586)
Other long term liabilities	(1,325)
Total Other Long-Term Liabilities	**(32,911)**
Total Gross External Debt	**(32,911)**
Treasury Investments:	
Banks and building societies (unsecured)	11,569
Money Market Funds	4,925
Total Treasury Investments	**16,494**
Net Debt	**(16,417)**

Appendix B 2
Treasury Management Strategy - Balance sheet summary and forecast

OPCC for Devon and Cornwall

	31.3.17 Actual £'000	31.3.18 Estimate £'000	31.3.19 Forecast £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000
Total CFR	**39,934**	**39,781**	**45,944**	**65,572**	**63,921**	**62,321**
Less: External Borrowing	(30,277)	(30,277)	(30,277)	(41,777)	(47,277)	(52,277)
Less: Finance Lease Liabilities	(234)	(712)	(594)	(464)	(303)	(117)
Internal Borrowing	**9,423**	**8,792**	**15,073**	**23,331**	**16,341**	**9,927**

Usable Reserves	64,933	43,749	30,826	23,530	16,841	12,831
Working Capital	10,308	10,308	10,308	10,308	10,308	10,308
Total Funds	**75,241**	**54,057**	**41,134**	**33,838**	**27,149**	**23,139**

Investments (Funds less internal borrowing)	**65,818**	**45,265**	**26,061**	**10,507**	**10,808**	**13,212**

OPCC for Dorset

	31.3.17 Actual £'000	31.3.18 Estimate £'000	31.3.19 Forecast £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000
Total CFR	**35,132**	**32,784**	**30,231**	**27,581**	**26,271**	**25,896**
Less: PFI Liabilities	(31,586)	(29,884)	(27,978)	(25,974)	(24,801)	(24,563)
Less: Other Long Term Liabilities	(1,325)	(1,206)	(1,086)	(967)	(847)	(727)
Internal Borrowing	**2,221**	**1,694**	**1,167**	**640**	**623**	**606**

Usable Reserves	16,984	9,940	8,410	7,110	7,530	7,530
Working Capital	1,685	1,685	1,685	1,685	1,685	1,685
Total Funds	**18,669**	**11,625**	**10,095**	**8,795**	**9,215**	**9,215**

Investments (Funds less internal borrowing)	**16,448**	**9,931**	**8,928**	**8,155**	**8,592**	**8,609**

Appendix C 1

Investment Strategy – Counter party types

OPCC for Devon and Cornwall

Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£12m 50 years	£3.5m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£3.5m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£3.5m 5 years	£6m 10 years
AA-	£6m 3 years	£12m 4 years	£12m 10 years	£3.5m 3 years	£6m 10 years
A+	£6m 2 years	£12m 3 years	£6m 5 years	£3.5m 3 years	£6m 5 years
A	£6m 13 months	£12m 2 years	£6m 5 years	£3.5m 2 years	£6m 5 years
A-	£6m 6 months	£6m 13 months	£1.5m 5 years	£1.5m 13 months	£1.5m 5 years
None	£1.5m 6 months	n/a	£12m 25 years	£1.5m 5 years	£6m 5 years
Pooled funds	£6m per fund				

Appendix C 1 - continued

Investment Strategy – Counterparty types

OPCC for Dorset

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1.5m 5 years	£3m 20 years	£3m 50 years	£1m 20 years	£1.5m 20 years
AA+	£1.5m 5 years	£3m 10 years	£3m 25 years	£1m 10 years	£1.5m 10 years
AA	£1.5m 4 years	£3m 5 years	£3m 15 years	£1m 5 years	£1.5m 10 years
AA-	£1.5m 3 years	£3m 4 years	£3m 10 years	£1m 3 years	£1.5m 10 years
A+	£1.5m 2 years	£3m 3 years	£1.5m 5 years	£1m 3 years	£1.5m 5 years
A	£1.5m 13 months	£3m 2 years	£1.5m 5 years	£1m 2 years	£1.5m 5 years
A-	£1.5m 6 months	£3m 13 months	£1.5m 5 years	£1m 13 months	£1.5m 5 years
None	£0.5m 6 months	n/a	£1.5m 25 years	£1m 5 years	£1.5m 5 years
Pooled funds	£1.5m per fund				

Appendix C 2

Investment Strategy - Counterparties and limits

Devon and Cornwall PCC Approved List of Counterparties to Invest with						
				Group		
	UK	Unsecured £m	Secured £m	Unsecured £m	Secured £m	Duration Unsecured
Lloyd Banking Group:				6	12	
Bank of Scotland	Yes	6	12			6 months
Lloyds Bank PLC	Yes	6	12			6 months
HSBC Bank	Yes	6	12			6 months
Bank of Montreal		6	12			6 months
Bank of Nova Scotia		6	12			6 months
Canadian Imperial Bank of Commerce		6	12			6 months
Royal Bank of Canada		6	12			6 months
Toronto Dominion Bank		6	12			6 months
Cooperatieve Rabobank		6	12			13 months
DBS Bank LTD		6	12			13 months
Oversea-Chinese Banking Corporation		6	12			13 months
United Oversea Bank		6	12			13 months
Nordea Bank AB		6	12			13 months
Svenska Handlebanken		6	12			13 months
Close Brother Limited		6	12			6 months
Santander UK PLC	Yes	6	12			6 months
Australia and New Zealand Banking Group		6	12			6 months
Commonwealth Bank of Australia		6	12			6 months
National Australia Bank		6	12			6 months
Westpac Banking Group		6	12			6 months
Landesbank Hessen-Thuringen (Helaba)		6	12			6 months
Nationwide Building Society	Yes	6	12			6 months
Coventry Building Society	Yes	6	12			6 months
Standard Chartered	Yes	6	12			100 days
Barclays Bank	Yes	6	12			100 days
Goldman Sachs International Bank	Yes	6	12			100 days
Leeds Building Society	Yes	6	12			100 days
Credit Suisse		6	12			100 days
RBS Banking Group				6	12	
National Westminster Bank PLC	Yes	6	12			35 days
Royal Bank of Scotland	Yes	6	12			35 days

Appendix C 2 - continued

Investment Strategy - Counterparties and limits

Devon and Cornwall Police - High Quality Bond Issuers			
Country	**Counterparty**	**Max Duration**	**Max Amount**
Supra	Council of Europe Development Bank	15 years	£5m
Supra	European Bank for Reconstruction & Development	25 years	£5m
Supra	European Coal & Steel Community	25 years	£5m
Supra	European Investment Bank	25 years	£5m
Supra	Inter-American Development Bank	25 years	£5m
Supra	International Bank for Reconstruction & Development Bank	25 years	£5m
Supra	International Finance Corp	25 years	£5m
Supra	Nordic Investment Bank	25 years	£5m
Australia	New South Wales Treasury Corporation	25 years	£5m
Canada	Export Development Canada	25 years	£5m
Denmark	Kommunekredit	25 years	£5m
Finland	Finnish Government	15 years	£5m
Finland	Municipality Finance plc	15 years	£5m
Germany	FMS Wertmanagement	25 years	£5m
Germany	KfW	25 years	£5m
Germany	Landeskreditbank Baden-Württemberg - Förderbank	25 years	£5m
Germany	Landwirtschaftliche Rentenbank	25 years	£5m
Germany	State of Saxony-Anhalt	15 years	£5m
Netherlands	Bank Nederlandse Gemeenten	5 years	£3m
Netherlands	Nederlandse Waterschapsbank NV	5 years	£3m
Norway	Kommunalbanken AS	5 years	£3m
Singapore	Temasek Financial (I) Ltd	10 years	£3m
Sweden	Svensk Exportkredit AB	5 years	£3m
UK	LCR Finance plc	15 years	£5m
UK	Network Rail Infrastructure Finance plc	15 years	£5m
UK	Transport for London	10 years	£5m
UK	Wellcome Trust Finance plc	20 years	£3m

Appendix C 2 - continued

Investment Strategy - Counterparties and limits

Dorset PCC Approved List of Counterparties to Invest with

	UK	Unsecured £m	Secured £m	Group Unsecured £m	Secured £m	Duration Unsecured
Lloyd Banking Group:				1.5	3	
Bank of Scotland	Yes	1.5	3			6 months
Lloyds Bank PLC	Yes	1.5	3			6 months
HSBC Bank	Yes	1.5	3			6 months
Bank of Montreal		1.5	3			6 months
Bank of Nova Scotia		1.5	3			6 months
Canadian Imperial Bank of Commerce		1.5	3			6 months
Royal Bank of Canada		1.5	3			6 months
Toronto Dominion Bank		1.5	3			6 months
Cooperatieve Rabobank		1.5	3			13 months
DBS Bank LTD		1.5	3			13 months
Oversea-Chinese Banking Corporation		1.5	3			13 months
United Oversea Bank		1.5	3			13 months
Nordea Bank AB		1.5	3			13 months
Svenska Handlebanken		1.5	3			13 months
Close Brother Limited		1.5	3			6 months
Santander UK PLC	Yes	1.5	3			6 months
Australia and New Zealand Banking Group		1.5	3			6 months
Commonwealth Bank of Australia		1.5	3			6 months
National Australia Bank		1.5	3			6 months
Westpac Banking Group		1.5	3			6 months
Landesbank Hessen-Thuringen (Helaba)		1.5	3			6 months
Nationwide Building Society	Yes	1.5	3			6 months
Coventry Building Society	Yes	1.5	3			6 months
Standard Chartered	Yes	1.5	3			100 days
Barclays Bank	Yes	1.5	3			100 days
Goldman Sachs International Bank	Yes	1.5	3			100 days
Leeds Building Society	Yes	1.5	3			100 days
Credit Suisse		1.5	3			100 days
RBS Banking Group				1.5	3	
National Westminster Bank PLC	Yes	1.5	3			35 days
Royal Bank of Scotland	Yes	1.5	3			35 days

Appendix C 2 - continued

Investment Strategy - Counterparties and limits

Dorset Police - High Quality Bond Issuers			
Country	**Counterparty**	**Max Duration**	**Max Amount**
Supra	Council of Europe Development Bank	15 years	£2m
Supra	European Bank for Reconstruction & Development	25 years	£2m
Supra	European Coal & Steel Community	25 years	£2m
Supra	European Investment Bank	25 years	£2m
Supra	Inter-American Development Bank	25 years	£2m
Supra	International Bank for Reconstruction & Development Bank	25 years	£2m
Supra	International Finance Corp	25 years	£2m
Supra	Nordic Investment Bank	25 years	£2m
Australia	New South Wales Treasury Corporation	25 years	£2m
Canada	Export Development Canada	25 years	£2m
Denmark	Kommunekredit	25 years	£2m
Finland	Finnish Government	15 years	£2m
Finland	Municipality Finance plc	15 years	£2m
Germany	FMS Wertmanagement	25 years	£2m
Germany	KfW	25 years	£2m
Germany	Landeskreditbank Baden-Württemberg - Förderbank	25 years	£2m
Germany	Landwirtschaftliche Rentenbank	25 years	£2m
Germany	State of Saxony-Anhalt	15 years	£2m
Netherlands	Bank Nederlandse Gemeenten	5 years	£2m
Netherlands	Nederlandse Waterschapsbank NV	5 years	£2m
Norway	Kommunalbanken AS	5 years	£2m
Singapore	Temasek Financial (I) Ltd	10 years	£2m
Sweden	Svensk Exportkredit AB	5 years	£2m
UK	LCR Finance plc	15 years	£2m
UK	Network Rail Infrastructure Finance plc	15 years	£2m
UK	Transport for London	10 years	£2m
UK	Wellcome Trust Finance plc	20 years	£2m

Appendix D

Non-Specified Investment Limits

OPCC for Devon and Cornwall

	Cash limit
Total long-term investments	£20.0m
Total investments without credit ratings or rated below [A-] (except UK Government and local authorities)	£6.0m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£6.0m
Total non-specified investments	£32.0m

OPCC for Dorset

	Cash limit
Total long-term investments	£3.0m
Total investments without credit ratings or rated below [A-] (except UK Government and local authorities)	£1.5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£1.5m
Total non-specified investments	£6.0m

Appendix E

Investment Strategy – Investment limits

OPCC for Devon and Cornwall

	Cash limit
Any single organisation, except the UK Central Government	£12m each (£6m unsecured funds)
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group (£6m unsecured funds)
Any group of pooled funds under the same management	£6m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£12m per country
Registered providers	£20m in total
Unsecured investments with building societies	£12m in total
Loans to unrated corporates	N/A
Money Market Funds	£32m in total

OPCC for Dorset

	Cash limit
Any single organisation, except the UK Central Government	£3m each (£1.5m unsecured funds)
UK Central Government	unlimited
Any group of organisations under the same ownership	£3m per group (£1.5m unsecured funds)
Any group of pooled funds under the same management	£3m per manager
Negotiable instruments held in a broker's nominee account	£6m per broker
Foreign countries	£3m per country
Registered providers	£6m in total
Unsecured investments with building societies	£3m in total
Loans to unrated corporates	N/A
Money Market Funds	£6m in total

Appendix F

Prudential Indicators

OPCC for Devon and Cornwall

Table 1: Estimates of Capital Expenditure

Capital Expenditure and Financing	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Total Expenditure	**20,473**	**23,862**	**45,246**	**19,695**	**8,769**
Capital Receipts	4,796	3,339	9,089	6,681	1,580
Government Grants	2,601	1,076	1,277	1,576	1,468
Reserves	8,809	5,363	9,614	2,385	1,750
Revenue	3,331	6,232	3,935	9,053	3,304
Borrowing	936	7,852	21,331	0	667
Total Financing	**20,473**	**23,862**	**45,246**	**19,695**	**8,769**

Table 2: Estimates of Capital Financing Requirement

Capital Financing Requirement	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Opening CFR	**39,934**	**39,781**	**45,944**	**65,572**	**63,921**
Capital expenditure to be funded by borrowing	936	7,852	21,331	0	667
Finance Lease	768	0	0	0	0
Less: Minimum Revenue Provision	(1,567)	(1,570)	(1,573)	(1,490)	(2,081)
Less: Finance Lease	(289)	(119)	(130)	(161)	(186)
Closing CFR	**39,781**	**45,944**	**65,572**	**63,921**	**62,321**

Table 3: Gross Debt and the Capital Financing Requirement

Debt	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
External Borrowing	30,277	30,277	30,277	41,777	47,277
Finance Leases	712	594	464	303	117
Total Debt	**30,989**	**30,871**	**30,741**	**42,080**	**47,394**

Appendix F - continued

Prudential Indicators

OPCC for Devon and Cornwall

Table 4: Operational Boundary for External Debt

Operational Boundary	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
External Borrowing	30,277	30,277	30,277	41,777	47,277
Other long-term liabilities	712	594	464	303	117
Maximum forecast cashflow deficit arising from revenue budget operations	10,000	10,000	10,000	10,000	10,000
Operational Boundary	**40,989**	**40,871**	**40,741**	**52,080**	**57,394**

Table 5: Authorised Limit for External Debt

Authorised Limit	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Operational Boundary	40,989	43,871	43,741	55,080	60,394
Additional margin for unforeseen circumstances	3,000	3,000	3,000	3,000	3,000
Authorised Limit	**43,989**	**46,871**	**46,741**	**58,080**	**63,394**

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2017/18 Revised %	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
Ratio of Financing Costs to Net Revenue Stream	0.86	0.84	0.83	0.82	0.88

Appendix F - continued

Prudential Indicators

OPCC for Dorset

Table 1: Estimates of Capital Expenditure

Capital Expenditure and Financing	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Total Expenditure	**4,553**	**7,898**	**3,180**	**2,496**	**2,883**
Capital Receipts	3,939	6,773	1,659	466	852
Government Grants	412	412	412	412	412
Reserves	202	4	0	0	0
Revenue	0	709	1,109	1,618	1,619
Borrowing	0	0	0	0	0
Leasing and PFI	0	0	0	0	0
Total Financing	**4,553**	**7,898**	**3,180**	**2,496**	**2,883**

Table 2: Estimates of Capital Financing Requirement

Capital Financing Requirement	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Opening CFR	**35,132**	**32,784**	**30,231**	**27,581**	**26,271**
Capital expenditure to be funded by borrowing	0	0	0	0	0
Less: Repayment of PFI	(1,702)	(1,906)	(2,004)	(1,173)	(238)
Less: Repayment of Other Long Term Liabilities	(119)	(120)	(119)	(120)	(120)
Less: Minimum Revenue Provision	(527)	(527)	(527)	(17)	(17)
Closing CFR	**32,784**	**30,231**	**27,581**	**26,271**	**25,896**

Appendix F - continued

Prudential Indicators

OPCC for Dorset

Table 3: Gross Debt and the Capital Financing Requirement

Debt	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
PFI liabilities	29,884	27,978	25,974	24,801	24,563
Other Long Term Liabilities	1,206	1,086	967	847	727
Internal Borrowing	1,694	1,167	640	623	606
Total Debt	**32,784**	**30,231**	**27,581**	**26,271**	**25,916**

Table 4: Operational Boundary for External Debt

Operational Boundary	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
PFI and Other long-term liabilities	31,090	29,064	26,941	25,648	25,290
Maximum forecast cashflow deficit arising from revenue budget operations	5,000	5,000	5,000	5,000	5,000
Total Operational Boundary	**36,090**	**34,064**	**31,941**	**30,648**	**30,290**

Table 5: Authorised Limit for External Debt

Authorised Limit	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Total Operational Boundary Debt	**36,090**	**34,064**	**31,941**	**30,648**	**30,290**
Additional margin for unforeseen circumstances	8,000	8,000	8,000	8,000	8,000
Total Authorised Limit	**44,090**	**42,064**	**39,941**	**38,648**	**38,290**

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Ratio of Financing Costs to Net Revenue Stream	0.43	0.39	0.38	(0.02)	(0.01)

Appendix G

Annual Minimum Revenue Provision Statement 2018/19

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 Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision. The broad aim of the MHCLG 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.

The MHCLG Guidance requires the OPCC to approve an Annual MRP Statement each year, and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The OPCC has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The OPCC has opted for the equal instalment method. This is applied from the year after the asset becomes operational. For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

The OPCC's can choose to make more MRP than considered the prudent minimum.

The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment.

Based on the OPCC's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

OPCC for Devon and Cornwall	**31.03.2018 Estimated CFR £'000**	**2018/19 Estimated MRP £'000**
Unsupported capital expenditure after 31.03.2008	39,069	1,570
Finance leases	712	119
Total	**39,781**	**2,553**

Appendix G Continued

OPCC for Dorset	31.03.2018 Estimated CFR £'000	2018/19 Estimated MRP £'000
Unsupported capital expenditure after 31.03.2008	1,694	527
Finance leases and Private Finance Initiatives	31,090	2,026
Total	**32,784**	**2,553**

Appendix H

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.