APPENDIX A

OFFICE OF THE POLICE AND CRIME COMMISSIONER FOR GWENT

Treasury Management Strategy 2022/23 to 2024/25

1 INTRODUCTION

1.1 Treasury Management is the management of cash flows, banking, money market and capital market transactions; the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks. The treasury management service is an important part of the overall financial management of the Police and Crime Commissioner's (Commissioner) affairs. The Commissioner is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's low risk appetite, providing adequate liquidity initially, before considering investment return. The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.

1.2 The Commissioner's treasury activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice on Treasury Management. Under the Code, the Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

1.3 The Prudential Code 2017 introduced a new requirement for local authorities (including Commissioners) to produce a Capital Strategy. It is for local authorities to decide whether to include their treasury management strategy and annual investment strategy as part of a Capital Strategy or to complete separately. Since the first year of operation, the Commissioner has elected to complete a separate four-year Capital Strategy which was completed at the conclusion of the budget setting process in February 2019 and approved before the commencement of the 2019/20 financial year. The Capital Strategy will next be updated for the commencement of the 2022/23 financial year.

1.4 The adoption of a Treasury Management Strategy for 2022/23, prior to the start of the financial year, is the first of the three reporting requirements in respect of that year. This will be followed in due course by a mid-year Treasury Management report and an Annual Treasury Management Report before 30th September 2023, providing a selection of actual prudential and treasury indicators.

1.5 The Treasury Management Strategy for 2022/23 covers two main areas:

Capital Issues
(i) The capital plans and the prudential indicators; and
(ii) The Minimum Revenue Provision (MRP) strategy.

Treasury Management Issues
(i) Debt and investment projections;
(ii) Limits on borrowing activity;
(iii) The expected movement in interest rates;
(iv) Borrowing and investment strategies;
(v) Treasury performance indicators; and
(vi) Specific limits on treasury activities.

2. CAPITAL PRUDENTIAL INDICATORS 2022/23 to 2024/25

2.1 The Local Government Act 2003 requires the Commissioner to adopt the CIPFA Prudential Code, which was updated in 2017, and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the underlying capital appraisal systems. This document updates currently approved indicators.

2.2 Within this overall prudential framework there is an impact on the Commissioner's treasury management activity, as it will directly impact on borrowing or investment activity.

2.3 Capital Expenditure Plans

2.3.1 The capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Commissioner to spend above this level will be considered unsupported capital expenditure.

2.3.2 This unsupported capital expenditure needs to have regard to:

(i) Service objectives (e.g. strategic planning);
(ii) Stewardship of assets (e.g. asset management planning);
(iii) Value for money (e.g. option appraisal);
(iv) Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
(v) Affordability (e.g. implications for the council tax); and
(vi) Practicality (e.g. the achievability of longer term plans).

2.3.3 The revenue consequences of capital expenditure, particularly the supported capital expenditure, will need to be paid for from the Commissioner's own resources.

2.3.4 This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, earmarked reserves (known as committed funds) or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Commissioner’s borrowing need.

2.3.5 A key risk to the plans, are that the level of Government support has been estimated and could therefore be subject to change.

2.3.6 The Commissioner is asked to approve the following summary capital expenditure projections which is the first prudential indicator:

First Prudential Indicator - Estimates of Capital Expenditure					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Capital Expenditure	**18,655**	**22,998**	**17,944**	**28,534**	**26,551**
Financed by:					
Capital Receipts	500	0	210	0	0
Capital Grants and PIF Grants	120	120	120	120	120
Reserves	13,399	12,097	6,580	64	1,209
Revenue	4,636	10,781	7,179	5,726	5,145
Net Financing Need for the Year	**0**	**0**	**3,855**	**22,624**	**20,077**

2.3.7 The above financing need excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. The table above identifies the financial requirements for the delivery of the Commissioner’s Estate Strategy, which includes the investment in a new Headquarters and the transformation of operational policing presence into a ‘Hub and Spoke’ model, resulting in a borrowing need from 2022/23 onwards. During 2022/23, the Capital Programme will be funded from a combination of capital grant, revenue contributions to capital, capital receipts and committed funds in addition to borrowing.

2.4 The Commissioner’s Borrowing Need (the Capital Financing Requirement)

2.4.1 The second prudential indicator is the Commissioner’s Capital Financing Requirement (CFR) which is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Commissioner’s underlying borrowing need. Any capital expenditure in the table in paragraph 2.3.6 above which has not immediately been paid for will increase the CFR.

2.4.2 The CFR includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to borrow separately for these schemes.

2.4.3 The Commissioner is asked to approve the CFR projections below:

Second Prudential Indicator - the Capital Financing Requirement (CFR)					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Opening CFR	0	0	0	4,944	27,140
Capital Spend	18,655	22,998	17,944	28,534	26,551
Movement In finance lease liability	0	0	1,089	(274)	(104)
Resources Used	(18,655)	(22,998)	(14,089)	(5,910)	(6,474)
MRP		0	0	(154)	(905)
Closing CFR	**0**	**0**	**4,944**	**27,140**	**46,208**

2.4.4 The adoption of International Financial Reporting Standard (IFRS) 16 – 'Accounting for Leases' should have commenced at the 1st April 2021, which would have already impacted on the calculation of the Commissioner's CFR within this Strategy. However, in late November 2020 as a result of the Coronavirus pandemic, the adoption of this Standard has been delayed for a year and will now take effect from 1st April 2022. The table above shows the impact of the implementation of IFRS 16 with a net increase in the financial lease liability of £1,089,291. This represents the initial recognition of £1,351,770 as a finance lease liability under IFRS 16 plus a decrease due to the in-year lease payments. The above figures were estimates calculated with information available at the 30th October 2021 and will therefore be subject to change.

2.4.5 In line with the latest MRP guidance, the Commissioner will be required to make a MRP in 2022/23. The Commissioner's policy on this matter is therefore at section 3 below.

3. MINIMUM REVENUE PROVISION POLICY

3.1 The Commissioner is required to recognise an element of outstanding capital borrowing each year through a revenue charge known as the MRP. The MRP is calculated to match the repayment of borrowing over the life of the assets, for which debt has been raised and is charged in the following year after the asset becomes operational. It is also permissible to pay an additional amount known as a Voluntary Revenue Provision (VRP). Under Welsh Government (WG) Regulations the Commissioner has to approve an MRP Statement in advance of each year. The Commissioner is recommended to adopt the following MRP policy for 2022/23:

(i) For all capital expenditure incurred before 1st April 2008 and all supported capital expenditure incurred since that date or in the future, the MRP policy will be 4% of the CFR. This is consistent with the practice in place prior to the current regulations; and

(ii) For all unsupported borrowing since 1st April 2008 and in the future, the asset life method will be used, i.e., the amount borrowed will be divided by the life of the asset.

4. THE USE OF THE COMMISSIONER'S RESOURCES AND INVESTMENT POSITION

4.1 The application of resources (capital receipts, committed funds, etc.) will have an on-going impact on investments. Detailed below are estimates of the year-end balances for each resource and anticipated day to day cash flow balances.

Investment Position - Year end Resources					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Police Fund	4,750	5,000	5,000	5,000	5,000
Earmarked Reserves	10,625	24,187	17,232	17,368	16,360
Provisions	1,417	1,537	1,537	1,537	1,537
Total Core Funds	**16,792**	**30,724**	**23,769**	**23,905**	**22,897**
Working Capital	4,101	5,590	5,590	5,590	5,590
Expected Investments	**20,893**	**36,314**	**29,359**	**29,495**	**28,487**

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

5. AFFORDABILITY PRUDENTIAL INDICATORS

5.1 The previous sections cover the overall capital and control of borrowing prudential indicators. Prudential indicators are also required to assess the affordability of the capital investment plans. The Commissioner is asked to approve the third and fourth prudential indicators, which assess affordability in terms of the impact of the capital investment plans on the Commissioner's overall finances.

5.2 The third prudential indicator is the ratio of net financing costs (financing income less finance interest expense) to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Third Prudential Indicator - Ratio of Financing Costs to Net Revenue Stream					
	2021/22 Original %	2021/22 Revised %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Ratio	**-0.15%**	**-0.04%**	**0.06%**	**0.70%**	**1.68%**

5.3 The estimates of financing costs include current commitments and the proposals in the budget report. The ratio turns positive in 2022/23 as interest expense will be payable on newly borrowed debt, at this point forecast interest expense will be greater than interest income.

5.4 The fourth prudential indicator identifies the increased revenue costs associated with the approved three year Capital Programme and expresses these in terms of the increase in Band D Council Tax Precept. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

Fourth Prudential Indicator - Incremental Increase in Council Tax Precept			
	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Ratio	**0.71**	**4.56**	**7.44**

6. BORROWING

6.1 The capital expenditure plans are set out in Section 2.3.6. The treasury management function ensures that the cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the capital expenditure requirements. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 Current borrowing portfolio position

The current treasury borrowing position at 30th September 2021, with forward projections, are summarised below. The below table shows the actual and forecasted external debt (the treasury management operations), against the future underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

Borrowing Position					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
External Debt					
Debt at 1st April	0	0	0	3,855	26,478

Expected Change in Debt	0	0	3,855	22,624	20,077
Other Long-Term Liabilities (Finance Lease Liability) at 1st April	0	0	1,352	1,089	816
Expected Change in OLTL	0	0	(262)	(274)	(104)
Gross Debt at 31st March	**0**	**0**	**4,944**	**27,294**	**47,267**
Capital Financing Requirement at 31st March	0	0	4,944	27,140	46,208
Under/(Over) Borrowing	**0**	**0**	**0**	**(154)**	**(1,059)**

6.3 The related impact of the above movements on the revenue budget is shown below:

Impact on Revenue Budgets					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Revenue Budget Heading					
Interest on Borrowing	0	0	148	1,019	1,792
Investment Income	(221)	(53)	(50)	(44)	(44)
Net Police Fund Borrowing Cost	**(221)**	**(53)**	**98**	**975**	**1,749**

7. LIMITS ON BORROWING ACTIVITY

7.1 Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates activities within well-defined limits. For the first of these the Commissioner needs to ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The following table is relevant for this indicator.

Limits on Borrowing Activity - Year End Position					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Gross Debt	**0**	**0**	**4,944**	**27,295**	**47,267**
Investments	(20,893)	(36,314)	(29,359)	(29,495)	(28,487)
Net Borrowing	(20,893)	(36,314)	(24,415)	(2,200)	18,780
Capital Financing Requirement	**0**	**0**	**4,944**	**27,140**	**46,208**
Gross Debt <= CFR	**Yes**	**Yes**	**Yes**	**No**	**No**

7.2 The next key indicator is the operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary for Debt at 1st April					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Debt	0	0	3,855	26,478	46,555
Other Long-Term Liabilities	0	0	1,352	1,089	816
Net Borrowing	**0**	**0**	**5,207**	**27,568**	**47,371**

7.3 A further key prudential indicator representing a control on the overall level of borrowing is the Authorised Limit for External Debt. This is calculated on a 5% mark up on the operational boundary. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total plans of all Local Authorities and Commissioners, or those of a specific Authority or Commissioner, although no control has yet been exercised. The Commissioner is asked to approve the following Authorised Limit:

Authorised Limit for Debt at 1st April					
	2021/22 Original £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Debt	0	0	4,047	27,802	48,883
Other Long-Term Liabilities	0	0	1,352	1,089	816
Working Capital Requirement	4,101	5,590	5,590	5,590	5,590
Authorised Limit	**4,101**	**5,590**	**10,989**	**34,481**	**55,289**

7.4 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

8. PROSPECTS FOR INTEREST RATES

8.1 The Commissioner uses Link Asset Services as treasury management advisors and part of their service is to provide a view on the prospects for interest rates and economic growth. The following table gives the Link Asset Services central view on the prospects for interest rates.

UK Interest Rate Forecast

Bank Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**0.10%**	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%
Capital Economics	**0.10%**	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-

5yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.56%**	1.40%	1.40%	1.50%	1.50%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
Capital Economics	**1.56%**	1.40%	1.50%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	1.90%	-

10yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.83%**	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%	2.10%	2.10%
Capital Economics	**1.83%**	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	-

25yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**2.00%**	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%
Capital Economics	**2.00%**	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	-

50yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.70%**	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%
Capital Economics	**1.70%**	2.00%	2.10%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	-

8.2 The Monetary Policy Committee (MPC) voted (7:2) to keep the Bank Rate at 0.10% at the meeeting held on 2nd November 2021, due to the economic challenges experienced relating to the Coronavirus pandemic. There is an expectation that the Bank Rate will increase to 0.25% by the end of the calendar year or in the early part of the next calendar year, which is lower than the rate of 1% originally anticipated by the market. The global economy has continued to recover and the UK's weighted global Gross Domestic Product (GDP) growth in Quarter 2 of 2021 has been broadly in line with expectations, reflecting the speed and uneveness of the recovery in activity and disruptions in the supply chain. This supports the MPC's cautious approach to raising the Bank Rate. Overall, the Bank of England had revised down their expectations for 2021 Quarter 3 GDP growth from 2.9% at the time of the August 2021 report to 2.1%, in part reflecting the emergence of some supply constraints on output. That would leave the level of Quarter 3 GDP around 2.5% below its pre-Covid level. These supply constraints have been evident in surveys showing historically lengthy supplier delivery times and backlogs of work; coupled with significant material and labour shortages in a number of sectors and therefore lower than normal levels of inventories.

8.3 The Consumer Price Inflation (CPI) rate in the UK edged down to 3.1% year-on-year in September 2021 from a 9 year high of 3.2% in August 2021 (which was below the forecast of 3.2%).

8.4 The number of employed people in the UK increased by 235,000 to 32.42 million in the three months to August 2021, compared with the market expectations of 243,000, as the labour market continues to recover. The UK unemployment rate has declined further to 4.5% in the three months to August 2021, the lowest in a year and in line with market expectations.

8.5 The final Chartered Institure of Procurememt and Supply (CIPS) UK Composite Purchasing Manager's Index (PMI) rose to 56.8 in October 2021, up from 54.9 in September, further than preliminary estimates of 54.0. The latest reading pointed to a robust and accelerated increase in UK private sector business activity, amid reports of strong business and consumer spending due to the roll back of pandemic restrictions. The downward growth revision in Quarter 3 UK weighted global GDP however, is primarily due to the slower than anticipated growth in the US and China; partly offset by strength in the Euro area. Global GDP was expected to expand at a slower pace in Quarter 4 than had been expected in the August 2021 MPC report, in part reflecting supply chain disruptions, which continued to weigh on global activity. Bottlenecks, stemming from supply disruptions and the pattern of global demand, as well as rising energy prices, had continued to increase global cost pressures.

8.6 According to estimates, US GDP has increased by 0.5% in 2021 Quarter 3, but this was a weaker increase than expected in the August 2021 MPC report. Household spending had risen by 0.4%, with spending on goods falling but service comsumption continuing to rise resulting in US GDP growth expected to be around 1% in Quarter 4. Meanwhile, the Federal Reserve voted to leave the Federal Funds Rate unchanged once again in their November meeting, at a rate of 0% to 0.25%. However, the Federal Open Market Committee stated that rates will remain low until inflation averages 2% over the long term. The Federal Reserve expects inflation to increase by 3.7% this year as the economy recovers, then drop to 2.2% in 2022. The US Composite PMI stood at 57.6 in October 2021 up from the previous month's 55.0 and signalling a solid rise in business activity.

8.7 According to the preliminery estimates, Euro-area GDP had grown by 2.2% in 2021 Quarter 3. This was stronger than expected in the August 2021 MPC report and had left the level of GDP 0.5% below that in 2019 Quarter 4. GDP growth is expected to be just under 1% in Quarter 4 2021. According to the estimates, Eurozone Composite PMI decreased by 1.9 points in October 2021 to 54.3, with both services and manufacturing indices decreasing. At its October 2021 meeting, the European Central Bank left its key interest rates unchanged in line with the current monetary policy strategy, which is to maintain interest rates until inflation is sufficiently close to but below 2%.

8.8 In China, GDP has increased by 0.2% in 2021 Quarter 3, lower than anticipated at the time of the August MPC report. The downside news has reflected the impact of local Covid outbreaks on consumption and services activity, power shortages and a rapid slowdown in housing activity. Further stresses in the property market more recently, were likely to weigh on activity in the near term. The 'official' Chinese manufacturing PMI decreased slightly to 49.2 in October 2021 from 49.6 in the previous month, marking the lowest reading since February 2020, signalling a deterioration in business conditons.

9. BORROWING STRATEGY 2022/23 – 2024/25

9.1 The uncertainty over future interest rates increases the risks associated with treasury activity. Investment returns are likely to remain low during 2022/23 with a small increase during the latter half the financial year as interest rates are expected to rise slightly. As a result, the Commissioner will continue a cautious approach to treasury strategy.

9.2 The Chief Finance Officer (CFO) (Section 151 Officer), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

9.3 The Commissioner is currently maintaining a neutral-borrowing position. This means that the capital borrowing need (the CFR), has been fully matched with loan debt. During 2022/23 it is predicted there will be a small amount of debt as the CFR exceeds the internal resources utilised funding the Capital Programme. This will be monitored throughout the year and depending on in-year financial performance, the need to borrow may not arise until 2023/24.

9.4 External debt will only be sought once the committed funds earmarked for capital expenditure have been utilised. In future years, the over-borrowing position is a direct impact of the MRP charge reducing the CFR.

10. INVESTMENT STRATEGY 2022/23 – 2024/25

10.1 **Key Objectives** – The Commissioner's primary investment strategy objectives are, firstly, safeguarding the re-payment of the principal and interest of his investments on time and, secondly, ensuring adequate liquidity. The investment return is an important third objective, but not as important as the first two objectives. Following the economic background outlined above, the current investment climate has one over-riding risk consideration; that of counterparty security risk.

10.2 **Risk Benchmarking** – A development in the revised 2011 Codes and the Welsh Government Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements in the revised Code, although the application of these is more subjective in nature.

10.3 These benchmarks are simple guides (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

10.4 **Security** – The Commissioner's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

(i) 0.009% historic risk of default when compared to the whole portfolio**.**

10.5 **Liquidity** – In respect of this area the Commissioner seeks to maintain:

(i) Liquid short term deposits of at least £2m available with a week's notice; and
(ii) Weighted Average Life of investments with banks between 3 and 12 months; and
(iii) Note that no overdraft facility is held at Lloyds bank.

10.6 **Yield** – Local measures of yield benchmarks are:

(i) Investments – Internal returns compared to the average Sterling Overnight Index Average (SONIA) rate. The transition to SONIA is due to the phasing out of LIBOR, which is taking place on the 31st December 2021.

10.7 The security benchmark for each individual year is:

	1 year	**2 years**	**3 years**	**4 years**	**5 years**
Maximum	0.009%	0.009%	Not applicable	Not Applicable	Not Applicable

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

10.8 **Investment Counterparty Selection Criteria** – The primary principle governing the Commissioner's investment criteria is the security of his investments, although the yield or return on the investment is also a key consideration. The Commissioner will not use non-specified investments i.e. investments exceeding 1 year 364 days. The Commissioner will ensure:

(i) A policy covering types of investment, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified Investment (investments not exceeding 1 year 364 days) sections below; and

(ii) Sufficient liquidity in investments. For this purpose procedures will be set out for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.

10.9 The Assistant Chief Officer - Resources will maintain a counterparty list in compliance with the following criteria. This criteria is separate from that which chooses Specified and Non-Specified Investments, as it provides an overall pool of counterparties considered high quality that the Commissioner may use rather than defining what his investments are.

10.10 The rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Commissioner's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Commissioner's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

10.11 Credit rating information is supplied by the Commissioner's treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum of the Commissioner's criteria will be suspended from use, with all others being reviewed in light of market conditions.

10.12 The Commissioner only uses the following high credit quality counterparties:

(i) UK banks and banks domiciled in a country other than the UK which has a minimum Sovereign long term rating of AAA, which have at least the following Fitch, Moody's and Standard and Poor's ratings (where rated):

- Short Term – F1/A1/P1;
- Long Term – A;

(ii) Part-nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part-nationalised or they meet the ratings in Banks above;

(iii) Building Societies which:
- Meet the ratings for banks outlined above; or
- Have assets in excess of £1bn;

(iv) Money Market Funds – AAA;

(v) UK Government (including gilts and the DMADF (see below));

(vi) Local Authorities;

(vii) Property Funds – These funds allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments; Property Funds offer enhanced returns over the longer term but are more volatile in the short term. Their value changes with market prices, so will be considered for longer investment periods; and

(viii) Supranational institutions.

10.13 Due care will be taken to consider the country, group and sector exposure of the Commissioner’s investments. In part, the country selection will be chosen by the credit rating of the Sovereign state. In addition:

(i) No more than £3m will be placed with any single non-UK country at any time;
(ii) Limits in place above will apply to Group companies; and
(iii) Sector limits will be monitored regularly for appropriateness.

10.14 Additional requirements under the Code of Practice now require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties.

10.15 The time and monetary limits for institutions on the Commissioner’s Counterparty List are as follows:

	Fitch (or equivalent)	**Money Limit**	**Time Limit**
UK Banks (Groups)	*P1/F1/A1*	£10m	<365days
Non UK Banks (Groups)	*P1/F1/A1*	£5m	<365days
Building Societies	*P1/F1/A1*	£5m	<365days
Money Market Funds	AAA	£5m	<365days
Local Authorities	-	£15m	<2 years
UK DMO	-	None	<365days
Property Fund		£5m	<5 years
Guaranteed Organisations	-	£3m*	<365days

**Guaranteed institutions will need to be restricted to the terms of the guarantee.*

10.16 In the normal course of the Commissioner’s cash flow operations it is expected that only Specified Investments will be utilised.

10.17 **The criteria for choosing counterparties set out above provide a sound approach to investment in ‘normal’ market circumstances. However, under exceptional market conditions the CFO may, after consulting the Commissioner, temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to ‘normal’ conditions. Similarly the time periods for investments may be restricted.** Examples of these restrictions would be the greater use of the Debt Management Account Deposit Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

10.18 Additionally, the Commissioner reserves the right to continue to hold an investment if the institutions credit rating is down-graded during the investment period if he is satisfied that the risks associated with the institution and investment are able to be managed and/or mitigated appropriately.

10.19 **Banking Arrangements**

The Commissioner's banker is Lloyds Bank, the contract is due to expire on 31st March 2023.

11. SENSITIVITY TO INTEREST RATE MOVEMENTS

11.1 The Commissioner is required to disclose in the accounts the impact of risks on treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Sensitivity to Interest Rate Movements		
	2022/23 Estimated +1% £000's	2022/23 Estimated -1% £000's
Interest on Borrowing	39	(39)
Investment Income	370	(50)

12. TREASURY MANAGEMENT - LIMITS ON ACTIVITY

12.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The Commissioner approves these limits.

	2022/23	**2023/24**	**2024/25**
Interest rate Exposures			
	Upper	**Upper**	**Upper**

Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	35%	35%	35%
Maturity Structure of fixed interest rate borrowing 2022/23			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	20%
5 years to 10 years		0%	20%
10 years and above		20%	90%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 20	£m 20	£m 20

13. PERFORMANCE INDICATORS

13.1 The Code of Practice on Treasury Management requires the Commissioner to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Performance indicators to be used for the treasury function are:

(i) Debt – Borrowing - Average rate of borrowing for the year compared to PWLB rates; and
(ii) Investments – Internal returns compared with the average SONIA rate.

The results of these indicators will be reported in the Treasury Annual Report.

14. TREASURY MANAGEMENT ADVISERS

14.1 The Commissioner uses Link Asset Services as treasury management advisors. The company provides a range of services which include:

(i) Technical support on treasury matters, capital finance issues and code compliance;
(ii) Economic and interest rate analysis;
(iii) Debt services which includes advice on the timing of borrowing;
(iv) Debt rescheduling advice surrounding the existing portfolio;
(v) Generic investment advice on interest rates, timing and investment instruments; and
(vi) Credit ratings/market information service, comprising the three main credit rating agencies.

14.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Commissioner.

15. TREASURY MANAGEMENT TRAINING

15.1 Officer training needs are assessed on appointment, as part of the Personal Development Review (PDR) process and when legislation changes are announced. Officers attend seminars arranged by Link Asset Services and other organisations. Staff within the Office of the Police and Crime Commissioner and Joint Audit Committee members also receive periodic Treasury Management training.