COMISIYNYDD
HEDDLU A THROSEDDU
DYFED-POWYS
POLICE AND CRIME
COMMISSIONER

REPORT / SUMMARY DECISION SHEET

PURPOSE: COMMISSIONER DECISION

Timing: Urgent – before the start of the 2018/19 financial year

Title: 2018/19 Treasury Management Strategy

Category of Decision / Business Area Impact: Finance

Executive Summary:

This document sets out the PCC's Treasury Management Strategy including Prudential Indicators, Financing Requirement and Minimum Revenue Provision policy for 2018/19 following scrutiny at the Joint Audit Committee meeting of the 19th March 2018.

Police and Crime Commissioner for Dyfed-Powys

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Nolan Principles for Conduct in Public Life.

The above request has my approval.

Signature:	**Date: 19th March 2018**

COMISIYNYDD HEDDLU A THROSEDDU DYFED-POWYS POLICE AND CRIME COMMISSIONER

Heddlu•Police DYFED-POWYS
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PURPOSE: JOINT AUDIT COMMITTEE SCRUTINY

Timing: Prior to start of 2018/19 Financial Year

Title: Treasury Management Strategy Statement for 2018/19

Category of Decision / Business Area Impact: Finance

Executive Summary:

The Home Office Financial Management Code of Practice states that the PCC is directly responsible for loans, investments and for borrowing money. The Chief Finance Officer of the PCC should decide what investments are to be made locally and approve any borrowing. Decisions on Capital Financing and Borrowing also form part of the PCC's responsibility.

Through locally agreed financial regulations and a Corporate Governance Framework the daily management of Loans and Investments in compliance with the approved polices could be undertaken by the Police Force CFOs staff.

All loans and investment should be arranged in line with best practice as embodied in the CIPFA Code of Practice on Treasury Management and all borrowing undertaken should comply with the CIPFA prudential Code for Capital Finance in Local Authorities.

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services requires the determination of the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also includes the Annual Investment Strategy that is a requirement of the Welsh Government's Investment Guidance.

This document sets out the policies and procedures the PCC has in place for meeting these statutory requirements for the 2018/19 year.

Recommendation:

For consideration and comment by the Joint Audit Committee.

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Report of Chief Finance Officer of the PCC

Treasury Management Strategy and Investment Policy

1. Purpose of Report

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services; Code of Practice 2011 edition* (the CIPFA code) requires the PCC to approve a treasury management strategy before the start of each financial year.

Following consultations last year, CIPFA have published a new 2017 edition of Treasury Management in the Public Services : Code of Practice and Cross-sectorial Guidance Notes and the Prudential Code for Capital Finance in Local Authorities in December 2017 The requirement for the publication of a Treasury Management Statement is unchanged in the 2017 code.

Given the late timing of the publication, the advice from the Police & Crime Commissioners Treasury Management Advisors is that the 2018/19 Strategy be produced in accordance with the 2011 code to allow for fuller appreciation and consideration. The new code contains no fundamental changes or requirements and indeed removes a number of prudential indicators.

CIPFA's Treasury and Capital Management Panel will also be producing analysis of the statutory guidance in its revisions to the publication *Treasury Management in the Public Services: Guidance Notes for Local Authorities Including Police Authorities and Fire Authorities*, in due course.

In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the PCC to approve an investment strategy before the start of each financial year.

This report fulfils the PCC's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

The PCC has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the PCC's treasury management strategy.

In accordance with the WG Guidance, the PCC 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 or in the level of its investment balance.

The PCC's Chief Financial Officer (CFO) should implement and monitor the treasury management policies and procedures in line with the CIPFA code and other professional guidance.

2. External Context

2.1 Economic Background

The major external influence on the Authority'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 surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 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.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

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 PCC; returns from cash deposits however remain very low.

2.3 Interest rate forecast

The Bank of England Monetary Policy Committee have heightened expectations of more increases in Bank Rate and at a quicker pace despite only modest changes in inflation and growth forecasts based on the Bank's perceptions of impaired supply capacity and a desire to inflation back to target more quickly.

The PCC's treasury adviser Arlingclose's central case is for UK Bank Rate to increase to 0.75% in May 2018 with a further rise around December 2018 to 1%**,** following the rise from the historic low of 0.25%.

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.

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

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.65%.

2.4 Local Context

On 30th September 2017, the Commissioner currently held £2.213m of borrowing and on the 28th February held £23.3m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

<u>Table 1</u>

	31.3.17	**31.3.18**	**31.3.19**	**31.3.20**	**31.3.21**
	Actual	**Estimate**	**Forecast**	**Forecast**	**Forecast**
	£m	**£m**	**£m**	**£m**	**£m**
Total CFR *	0	0	0	0	3.881
Less PWLB Borrowing	-2.298	-2.125	-1.936	-1.729	-1.502
Less Internal / External Borrowing	0	0	0	-3.881	-5.295
Less: Usable reserves	-27.233	-19.825	-10.028	-5.768	-5.318
Less: Working capital	-1.1	-2	-2	-2	-2
Investments (or New borrowing)	**-30.546**	**-23.95**	**-13.964**	**-13.378**	**-10.234**

* shows only loans to which the PCC is committed and excludes optional refinancing

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 Commissioner's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Commissioner has an increasing CFR due to the Capital Programme and will therefore be required to borrow up to £9.2m over the forecast period.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the PCC's debt should be lower than its highest forecast CFR over the next three years.

Repayment premiums on Public Works Loan Board debts are prohibitive and therefore it is more cost effective to continue to carry these loans rather than pay them off early. In addition, the PCC receives a grant contribution towards the costs of pre 1990 debt financing at 51% of the costs of the remaining notional interest payments and minimum revenue repayment.

3. Borrowing Strategy

As mentioned earlier, the PCC currently holds £2.213 million of loans, a decrease of £0.165 million on the previous year, as part of its strategy for funding previous years' capital programmes.

Given the significant cuts to public expenditure and in particular to local government funding, the PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / 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 PCC with this 'cost of carry' and breakeven analysis. Its output may determine whether the PCC 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 PCC 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 PCC may borrow further short-term loans to cover unplanned cash flow shortages.

Sources

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 Dyfed-Powys Pension Fund)
- capital market bond investors
- Special purpose companies created to enable local authority bond issues

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
- sale and leaseback

The PCC has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans, that may be available at more favourable rates.

Debt rescheduling

The PWLB allows the PCC to repay loans before maturity and either pay a premium or receive a discount according to as set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans, with new loans, or repay loans without replacement, where this is expected to lead to and overall cost saving or a reduction in risk.

4. Investment Strategy

The PCC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC's investment balance has ranged between £21 and £33 million. Due to the utilisation of reserves to fund the capital programme investment balances are expected to reduce in 2018/19.

Objectives: Both the CIPFA Code and the WG Guidance require the Authority 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 Authority'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 Authority 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.

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.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the PCC aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. This diversification will represent a continuation of the new strategy adopted in 2017/18.

4.1 Approved Counterparties

The PCC may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Counterparty limits will be reviewed on a quarterly basis and will be amended if necessary dependent on investment balances.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks /Building Societies Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£3m 20 years	£3m 50 years	£1m 20 years	£1m 20 years
AA+	£2m 5 years	£3m 10 years	£3m 25 years	£1m 10 years	£1m 10 years
AA	£2m 4 years	£3m 5 years	£3m 15 years	£1m 5 years	£1.5m 10 years
AA-	£2m 3 years	£3m 4 years	£2m 10 years	£1m 4 years	£1.5m 10 years
A+	£2m 2 years	£3m 3 years	£1m 5 years	£0.5m 3 years	£1.0m 5 years
A	£2m 13 months	£3m 2 years	£1m 5 years	£0.5m 2 years	£1.0m 5 years
A-	£2m 6 months	£3m 13 months	£1m 5 years	£0.5m 13 months	£1.0m 5 years
None	£1m 6 months	n/a	£2m 5 years	None	None

Pooled Funds (no greater than £3m per fund) and no greater than 50% of total investments

An alternative investment tool which has become available is Reverse Purchase Agreements (Repo's). Our Treasury Advisors have stated that these are classed under the category of "banks secured."

Definitions of the above terminology are included in Appendix C.

4.2 Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the PCC'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.

4.3 Other Information on the Security of Investments: The PCC understands 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 Authority 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 Authority'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.

4.4 Specified Investments

The WG 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”.

Dyfed Powys 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

4.5 Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. Dyfed Powys does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore comprise long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	(Current Amounts Invested)	**Cash limit (Proposed 2018/19)**
Total long-term investments	£10.5m	£12m
Total Shares in Money Market Funds	0	£15m
Total Shares in Other pooled funds	0	£3m
Total investments without credit ratings or rated below [A-] (except the UK Government and UK Local Authorities)	0	£4m
Total investments with institutions domiciled in foreign countries rated below [AA+]	0	£4m
Maximum amount to be invested in non-specified investments		£30m

4.6 Investment Limits

The PCC's revenue reserve available to cover unforeseeable investment losses (the general reserve) is forecast to be £4.052 million on 31st March 2018. The maximum that will be lent to any one organisation (other than the UK Government) will be £3 million. 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 multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£3m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£4m in total

4.7 Liquidity Management

Dyfed Powys completes an annual cash flow forecast which estimated the monthly cash flow position. This will be utilised to determine the maximum period for which funds may prudently be committed. This forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of being force to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the PCC's Medium term financial plan and cash flow forecast.

Dyfed Powys will aim to have a minimum of £2 million in call-accounts for short term liquidity purposes.

Investments are also made in T-bills and Certificates of Deposit which are liquid and can be sold in the secondary market if cash is required at short-term notice.

All investments of over 13 months will require CFO PCC approval in advance.

4.8 Non-Treasury Investments

The PCC currently has no Non-Treasury Investments.

5. Treasury Management Indicators

Dyfed Powys measures and manages its exposures to treasury management risks using the following indicators.

5.1 Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating *\/ credit score* 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 / score	A / 6

5.2 Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£4m

5.3 Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the account of net principal borrowed. (Investments count as negative borrowing.):

	2018/19	**2019/20**	**2020/21**
	£m	£m	£m
Upper limit on fixed interest rate exposure	0	0	3.9
Upper limit on variable interest rate exposure	0	0	0

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.

5.4 Maturity Structure of Borrowing

This indicator is set to control the PCC'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	20%	0%
12 months and within 24 months	72%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

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.

The limits have been set as wide as possible to ensure opportunities to restructure debt is not lost.

5.5 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the PCC'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:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£12m	£10m	£8m

6. Other Items

There are a number of additional items that Dyfed Powys is obliged by CIPFA or WG to include in its Treasury Management Strategy.

6.1 Policy on Use of Financial Derivatives

In the absence of any legal power to do so, the PCC 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.

6.2 Investment Training

CIPFA's Code of Practice requires the Chief Finance Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Staff who undertake Treasury management duties attend relevant training events provided by Arlingclose and attend a quarterly strategy meeting. Staff also attend other relevant training events.

6.3 Investment Advisers

The PCC has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues from them.

6.4 Investment of Money Borrowed in Advance of Need

The PCC 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 PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCC's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £23.1 million. The maximum period between borrowing and expenditure is expected to be two years, although Dyfed Powys is not required to link particular loans with particular items of expenditure.

6.5 Financial Implications

The budget for investment income in 2018/19 is £0.131 million, based on an average investment portfolio of £ 20.1 million at an interest rate of 0.65%. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

6.6 Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer (PCC), 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

Appendix A – Arlingclose Economic & Interest Rate Forecast February 2018

Underlying assumptions:

- The MPC has raised expectations for further rises in Bank Rate, both sooner and to a higher level than previously anticipated by markets. Reiterating the view of the UK economy's impaired supply capacity and survey data of higher private sector earnings growth, meaning inflationary outcomes are more likely. The MPC also revised the UK's economic growth prospects slightly higher due to the pull of global economic momentum.

- Significantly, the MPC also decided to shorten the forecast horizon over which inflation will be brought back to the CPI target.

- Our view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the Country's exit from the European Union. Whils recent economic data has improved, it has done so from a low base: UK Q4 2017 GDP growth was 0.5%, after a 0.4% expansion in Q2. Household consumption growth has softened, despite high employment and low savings rates. Housing markets are soft. Nevertheless, we cannot disregard the MPC's forceful intent and signal in the February Inflation Report and accompanying commentary.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes have increased, helped by a stronger global and 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.

Forecast:

- Over the near term, Arlingclose must forecast the MPC's actions rather than the expected level of monetary policy given our assessment of the UK economy. There is a clear momentum on the MPC for higher Bank Rate and this is likely to crystallise from May 2018.

- The MPC has heightened expectations of more increases in Bank Rate and at a quicker pace despite only modest changes in inflation and growth forecasts, based on the Bank's perceptions of impaired supply capacity and a desire to bring inflation back to target more quickly.

- Our central case is for Bank Rate to rise twice in 2018 and once more in the first half of 2019. The risks are weighted to the downside.

  Gilt yields have risen but remain historically low; current yields already incorporate higher Bank Rate expectations, so we expect little further upward movement.

Appendix B – Investment & Debt Portfolio Position

	30/09/2017 **Actual Portfolio** **£m**	30/09/2017 **Average Rate** **%**
External Borrowing: PWLB – Fixed Rate	2.214	9.31
Total Gross External Debt	**2.214**	**9.31**
	28/02/2018 **Actual Portfolio** **£m**	28/02/2018 **Average Rate** **%**
Investments:		
Managed in-house		
Short-term investments	14.950	0.41
Long-term investments	10.336	0.99
Total Investments	25.286	0.79

Please note that all debt is long-term and dated pre-1990. Balances are calculated on a bi-annual basis (30th September and 31st March).

Appendix C – Investment Definitions

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.

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

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the 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.

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.

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.

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.

Reverse Purchase Agreements (Repo): A repurchase agreement is a financial transaction where one entity (typically a bank) sells investments (bonds) to another entity (the investor) on one date and at the same time agrees to repurchase them at a fixed price on a later date. A repo involves two linked but separate transactions – the sale of bonds by the bank in return for cash, and the later repurchase of the bonds in return for a larger sum of cash.

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.

Appendix D – Treasury Management Practices (TMP)

TMP1 Risk Management

The Chief Finance Officer (CFO) of the PCC will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the PCC's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.*

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below:-

Credit and Counterparty Risk

Definition

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Action

"Dyfed-Powys regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those institutions from which it may borrow, or with whom it may enter into other financing arrangements."

Counterparties are detailed within the Treasury Management Strategy and Policy.

Liquidity Risk

Definition

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs and that the organisation's business / service objectives will be thereby compromised.

Action

It will be the function of the CFO (Chief Constable) through the treasury management staff employed by the Chief Constable to ensure that it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business / service objectives.

They will ensure that at all times there will be a surplus of cash available which can be called upon (£2m) through its investments in cash on call accounts, which would be available at any time.

Robust weekly, monthly and annual cash flow forecasting processes are in place in line with Financial Regulations and Financial Control Procedures.

Interest Rate Risk

Definition

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.

Action

Dyfed-Powys will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements.*

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

The PCC will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the PCC’s list of authorised institutions, thereby minimising legal and regulatory risk. All investment of over 13 months will need prior approval by the CFO PCC.

Exchange Rate Risk

Definition

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.

Action

Currently Dyfed Powys only invest in sterling products, hence there is no exchange rate risk.

Refinancing Risk

Definition

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue) and / or that the terms are inconsistent with prevailing market conditions at the time.

Action

Dyfed-Powys will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing if required, which are competitive and as favourable to the PCC as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counter-parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above."

Legal and Regulatory Risk

Definition

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisations suffers losses accordingly.

Action

Dyfed-Powys will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter-party policy under TMP1 *credit and counter-party risk management,* it will ensure that there is evidence of counter-parties' powers, authority and compliance in respect of the transactions they may effect with the PCC, particularly with regard to duty of care and fees charged.

Dyfed Powys recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the PCC.

Fraud, Error and Corruption Contingency

Definition

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as an operational risk.

Action

Dyfed-Powys will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends. Internal Audit will regularly review Treasury Management function and report to the Joint Audit Committee.

A clear, well defined reporting structure for fraud etc. is in place in the event of a systems breakdown. The insurance policy incorporates cover for fraud, error and corruption. This is documented within the Anti-fraud and Corruption policy and included within Financial Control Procedure 4.7 “Dealing with Suspected Fraud and deception.”

Market Risk

Definition

The risk that through adverse fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Action

Dyfed-Powys will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

It will only place investments with institutions that are included on the most recent counter-party lending list approved by Arlingclose.

TMP2 Performance Measurement

Dyfed Powys is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured by using the criteria set out below:-

The performance measures / benchmarks for treasury management will include the following: -

	Performance Measure
1	Achieving the budgeted investment income
2	Ensuring cash balance cover of 31 days

3		Ensuring that investments are only placed with institutions which comply with the annual Treasury Management Strategy.
4		Ensuring approved counter-party limits are adhered to (refer to TMP's 1/ 5)
5		Expected levels of Investments per month compared to actual level of investment
6		Average rate of return of investments per month compared to target rate

TMP3 Decision Making and Analysis

Dyfed Powys will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Decisions regarding funding, borrowing, lending and new instruments and techniques will only be made if they comply with the Treasury Management Policy and Strategy. All decisions will be open to independent scrutiny.

TMP4 Approved Instruments, Methods and Techniques

Dyfed Powys will undertake its treasury management activities by employing only those instruments, methods and techniques specified in the Financial Regulations and Financial Control Procedures and within the limits and parameters defined in TMP 1 Risk Management.

The Corporate Governance Framework section 7.8F gives instruction on Treasury Management and Banking arrangements and the Financial Control Procedure 2.1 *Treasury Management and Banking arrangements* specify instruments, methods and techniques approved.

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

Dyfed-Powys considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is, at all times, clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when Dyfed Powys intends, as a result of lack of resources or other circumstances, to depart from these principles, the CFO CC will ensure that the reasons are properly reported to the CFO PCC in accordance with TMP6 *Reporting Requirements and Management Information Arrangements,* and the implications properly considered and evaluated.

The CFO CC will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The CFO CC will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out and report any deviance from these to the CFO PCC.

The CFO CC will ensure that there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds and provide evidence of this where required to the CFO PCC.

TMP6 Reporting Requirements and Management Information Arrangements

Dyfed-Powys will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

It is suggested that the following reporting process be presented by the PCC CFO:-

Annual reporting requirements before the start of the year:

- Review of the Treasury Management policy statement and strategy,
- Review of the Treasury Management Practices,
- Prudential Indicators.

Mid-year reporting requirements:

- Treasury Management Activities undertaken,
- Variations (if any) from agreed policies / practices,
- Performance report,
- Performance against Treasury Management and Prudential Indicators.

Annual reporting requirements after year end:

- Performance of Treasury Management Function,
- Report on risk implications of decisions taken and transactions executed,

- Report on any circumstances of non-compliance with the Treasury management Police Statement and TMPs.

TMP7 Budgeting, Accounting and Audit Arrangements

The CFO PCC will prepare and the PCC will approve and if necessary from time to time will amend the annual budget for the Treasury Management function, together with associated income. The matters to be included in the budget will be at minimum those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *Performance Measurement* and TMP4 *Approved Instruments, Methods and Techniques*. The CFO will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

Dyfed-Powys will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being and in particular the CIPFA Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in Public Services issued in 2011. The CFO will act in accordance with the PCC's policy statement and TMPs and the *CIPFA: Standard of Professional Practice on Treasury Management.*

The PCC will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

Treasury Management procedures and processes will be audited in accordance with the internal audit risk based audit strategy.

Auditors will as part of their responsibilities in auditing the Statement of Accounts, obtain independent verification from counterparties of investments held by the PCC.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hand of Dyfed Powys will be under the control of the PCC, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular basis, and the CFO PCC and CFO CC will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Liquidity Risk Management.*

TMP9 Money laundering

Dyfed Powys is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter-parties and reporting suspicions, and will ensure that staff involved in this are fully trained.

Only counterparties approved by the Treasury Management consultants will be utilised. Terms and conditions are agreed between the counterparty and the PCC prior to the transfer of funds.

The Proceeds of Crime Act 2020 (POCA) and the related Money Laundering Regulations 2007 have also extended the Wales Audit Office auditors responsibilities. The Auditor General and his staff and contractors are required to report to the Serious and Organised Crime Agency (SOCA) where they suspect, as a result of information gained during the course of their work, that there may have been criminal acts that involve financial gain.

If any staff involved in Treasury Management have suspicions of money laundering then this should be brought to the attention of the CFO PCC and CFO CC.

TMP10 Training and Qualifications

Dyfed Powys recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The PCC will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The CFO PCC will recommend and implement the necessary arrangements.

The CFO PCC will ensure that all staff tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Staff who undertake Treasury management duties attend relevant training events provided by Arlingclose and attend a quarterly strategy meeting. Staff also attend relevant training events that are held by CIPFA.

Weekly bulletin e-mails are sent out by Arlingclose which provide advice on any economic developments and suggested revisions to counterparty limits.

TMP11 Use of External Service Providers

Dyfed-Powys recognises that responsibility for treasury management decisions remains with the PCC at all times. Dyfed-Powys recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the CFO PCC.

Dyfed Powys has a contract with Arlingclose for the provision of advice/assistance as follows:

- Strategic advice
- Capital finance advice
- Treasury Management Policy and Strategy
- Interest Rate Forecasting and Economic Advice
- Investment Policy Advice
- Debt Advice
- Counterparty Assistance
- Seminars and training
- Website and client meetings.

TMP12 Corporate Governance

Dyfed-Powys has adopted and implemented the key recommendations of the CIPFA Code of Practice. This is considered vital to the achievement of proper corporate governance in treasury management, and the CFO PCC and CFO CC will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Code recommends that public service organisations state their commitment to embracing the principles of corporate governance in their Treasury Management activities, notably openness and transparency.

Dyfed Powys is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Therefore, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability reflected in Dyfed Powys's Corporate Governance Framework and Financial Control Procedures.

The organisation's Treasury Management policies and practices will be published on the internet.

The CFO PCC has primacy over Treasury Management functions and will ensure that adequate separation of duties exist between staff charged with undertaking Treasury Management Functions.

Appendix E Prudential Indicators and MRP Statement 2018/19

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

1. Estimates of Capital Expenditure:

The PCC's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2017/18 Revised £k**	**2018/19 Estimate £k**	**2019/20 Estimate £k**	**2020/21 Estimate £k**	**2021/22 Estimate £k**
Estates Projects	1,916	5,685	4,650	3,350	2350
Vehicles	988	953	962	1,095	1,050
ICT Schemes	1,942	2,943	1,885	1,750	1,644
Other Schemes	389	316	457	443	547
Total Expenditure	**5,235**	**9,897**	**7,954**	**6,638**	**5,591**
Capital Receipts	208	2,023	25	25	25
Government Grants	318	318	318	318	318
Reserves	4,408	7,556	3,218	0	0
Revenue Contributions to Capital	300	0	512	1000	1500
Borrowing	0	0	3,881	5,295	3,748
Leasing and PFI	0	0	0	0	0
Total Financing	**5,234**	**9,897**	**7,954**	**6,638**	**5,591**

2. **Estimate of Capital Financing Requirement:**

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

Capital Financing Requirement	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Total	0	0	0	3,882

The CFR is forecast to rise by £3.9m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

3. **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 PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	2.125	**1.936**	5.578	6.645
Total Debt	**2.125**	**1.936**	**5.578**	**6.645**

We are currently breaching this prudential indicator as external debt is forecast to be higher than CFR in the current year end over the next three years. This is due to the CFR being reimbursed from reserves in 2015/16. This decision was made as it was assessed to be more economically advantageous to repay the CFR utilising existing reserves than to make the Minimum Revenue Payment to reduce its balance very year. This has led to estimated revenue savings of £1.6m over a five year period.

4. **Operational Boundary for External Debt:**

The operational boundary is based on the PCC's estimate of most likely i.e. prudent but not worst case scenario for external debt. It links to the PCC's estimates of capital expenditure, the CFR and cashflow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities which are not borrowing but form part of the PCC's debt.

The limits set are shown in the table below:-

Operational Boundary	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	12,676	12,676	12,676	12,676
Other long-term liabilities	1,000	1,000	1,000	1,000
Total Debt	**13,676**	**13,676**	**13,676**	**13,676**

5. **Authorised limit for External Debt:**

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

The limits are shown in table below:-

Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	17,310	17,310	17,310	17,310
Other long-term liabilities	1,000	1,000	1,000	1,000
Total Debt	**18,310**	**18,310**	**18,310**	**18,310**

6. **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 indicator shows financing costs in the context of the entire budget.

This is scheduled to increase over the period due to the requirement to undertake borrowing to support the investment required as a result of the Capital Programme. It is still projected to remain below 1% of the overall budget and therefore shouldn't provide any long term problems in terms of affordability and sustainability.

	2017/18 Revised £k	**2018/19 Estimate £k**	**2019/20 Estimate £k**	**2020/21 Estimate £k**
Financing Costs	60	64	153	607
Net Revenue Stream	96,616	99,100	102,008	105,085
Ratio of Financing Costs to Net Revenue Stream	0.06%	0.06%	0.15%	0.58%

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

This is an indicator of affordability that shows the impact of capital investment decisions on council tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £
Increase in annual band D Council Tax	0.61	0.74

Annual Minimum Revenue Provision Statement 2018/19

Where the PCC 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 PCC to have regard to the Welsh Government's Guidance on Minimum Revenue Provision.

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

The WG guidance requires the PCC to approve an annual MRP statement each year, and recommends a number of options for calculating a prudent amount of MRP.

Whilst it is foreseen that the CFR will remain at zero for a couple of years (and therefore MRP will be zero), the policy will still be used to estimate future MRP charges to the revenue account for future years in setting the medium term financial plan and capital programme.

The following statement only incorporates options recommended in the guidance:

ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

The following policy has been set by the PCC in relation to MRP for 2018/19.

Supported Borrowing - Capital Financing Requirement Method

MRP is equal to 4% of the supported Capital Financing Requirement (CFR) at the end of the preceding financial year. For 2018/19 this is estimated to be zero.

Prudential Borrowing - Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by prudential borrowing or unsupported credit arrangements.

(a) MRP will continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed.

(b) On disposal of the asset, the amount of the capital receipt will not be taken to the revenue account and the PCC will comply with the normal requirements of the 2003 Act on the use of capital receipts.

(c) Where the percentage of the expenditure on the asset financed by prudential borrowing or unsupported credit arrangements is less than 100%, MRP will be equal to the same percentage of the provision required under depreciation accounting.

Finance Leases and PFI

In the case of finance leases and on balance-sheet PFI contracts, the MRP requirement will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.