WYPCC – Decision

From: Judith Heeley

Date: 18 March 2013

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Timing:	Pressing. The Treasury Management Strategy including the Investment Strategy must be approved prior to the start of each financial year.
Purpose:	Decision
Cleared by:	Fraser Sampson

SUBJECT OF ADVICE Approval of the Treasury Management Policy Statement, Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision calculation policy for 2013/14.

Summary: The Commissioner is required by the Chartered Institute of Public Finance and Accountancy Code of Practice on Treasury Management to approve the above documents prior to the start of each financial year.

The attached paper was considered by the Joint Independent Audit Committee on 15 March 2013, and members of the Committee recommended that the Commissioner approve the proposals contained within it.

Recommendation: That the Commissioner approve the proposals contained within the attached paper.

Consideration: As set out in the attached paper.

Affordability: As set out in the attached paper.

Supporting and dissenting views: The Joint Independent Audit Committee endorsed the proposals set out in the attached paper.

APPENDIX:

Paper presented to the Joint Independent Audit Committee 15 March 2013

AGENDA ITEM 9

JOINT INDEPENDENT AUDIT COMMITTEE

15 MARCH 2013

REPORT OF CHIEF FINANCE OFFICER

DRAFT TREASURY MANAGEMENT STRATEGY

PURPOSE OF REPORT

1. To provide members with a summary of treasury management activity to date during 2012/13. The documents below have also been updated to reflect the recently approved budget.

    - Treasury Management Activity 2012/13 (Appendix A)
    - Treasury Management Policy Statement (Appendix B)
    - Treasury Management Strategy Statement (Appendix C)
    - Prudential Indicators (Appendix D)
    - Investment Strategy (Appendix E)
    - Minimum Revenue Provision (MRP) calculation policy (Appendix F)
    - Treasury Management Practices (Appendix G)

KEY INFORMATION

1. Treasury management activity to date during 2012/13 is attached for information at Appendix A.

2. The proposed Treasury Management Policy Statement for 2013/14 is shown at Appendix B and covers the definition of treasury management activities and the key principles underpinning all treasury management activities. The definition includes the investment of surplus cash and the sourcing of external borrowing. The Commissioner's average daily cash surplus, projected to be around £67.3m, is made up of the amounts held in balances, reserves and provisions, usable capital receipts, unapplied capital grants and temporary cash flow surpluses.

3. The proposed treasury management strategy statement for 2013/14 is attached at Appendix C. This continues to focus on economy and stability, to achieve the lowest net interest rate costs recognising the risk management implications, and protect the annual revenue budget from short term fluctuations on interest rates.

4. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved. The Code was revised in November 2011 and includes a slight change to one of

the key principles along with a requirement to incorporate the Commissioner’s high level policies for borrowing and investments within the Treasury Management Policy Statement. Where relevant the amendments have been included for approval within this report.

5. Prudential Indicators in respect of capital expenditure, external debt and treasury management activity are included at Appendix D. This includes the Authorised Limit for external borrowing required under section 3(1) of the Local Government Act 2003.

6. Guidance from the Department of Communities and Local Government (DCLG) requires the Commissioner to set an annual investment strategy. The proposed strategy is set out at Appendix E and has as its primary principle the security of investments.

7. The criteria for choosing counterparties set out there provide a sound approach to investment in “normal” market circumstances. Whilst the Commissioner is asked to approve this base criteria, under the exceptional current market conditions the Commissioner’s Chief Finance Officer will 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 will be restricted.

8. The DCLG has also issued statutory guidance setting out options for the way MRP may be calculated. Further background to the guidance and the policy is set out at Appendix F.

9. The latest guidance from CIPFA recommends that detailed scrutiny of Treasury Management proposals is undertaken prior to approval, with a view to informing and expediting the formal consideration by the full Commissioner. Members are requested to consider the strategy, and whether any amendments are required prior to submission to the Commissioner.

10. One of the corner-stones of effective treasury management is the preparation and implementation of suitable Treasury Management Practices (TMPs), which set out the manner in which the organisation will seek to achieve the treasury management policies and objectives and prescribe how it will manage and control those activities. A summary of the Treasury Management Practices relevant to the Commissioner is attached at Appendix G. Detailed schedules have been prepared which specify the systems and routines that are employed and the records that are maintained.

Affordability:

11. Balanced Budget Requirement

    It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 to produce a balanced budget. In particular, Section 32 requires a local authority, including the Commissioner, to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

This means that capital expenditure must be limited to a level where increases in charges to revenue from additional external interest and running costs are affordable within the projected income levels for the foreseeable future.

12. Budget Assumptions

The budget estimates associated with treasury management activity are set out below:

	Original Estimate 2012/13 £000	**Revised Estimate 2012/13 £000**	**Original Estimate 2013/14 £000**
Interest Payable	4,784	4,094	4,143
Debt Management Expenses	7	7	7
Interest Receivable	(573)	(614)	(608)
Total	**4,218**	**3,487**	**3,542**

Risks/Legal Opinion:

13. Treasury management activities expose the Commissioner to a variety of financial risks, the key risks being credit risk, liquidity risk, re-financing risk and market risk. Overall procedures for managing risk include adopting the requirements of CIPFA's Code of Practice (including an approved Treasury Strategy and Investment Strategy), and approving annually in advance prudential indicators for the following three years.

14. The treasury service itself is provided to the Commissioner by Wakefield MDC through a service level agreement. Additionally, under the service level agreement with Wakefield MDC, the Commissioner uses Sector Treasury Services as his external treasury management advisers. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies.

15. It must be recognised that responsibility for treasury management decisions remains with the organisation at all times which will ensure that undue reliance is not placed upon external service providers. 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. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

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SUPPORTING DOCUMENTATION

Appendix A – Treasury Management Activity 2012/13

Appendix B – Treasury Management Policy Statement 2013/14

Appendix C – Treasury Management Strategy Statement 2013/14

Appendix D – Prudential Indicators

Appendix E – Investment Strategy

Appendix F – MRP Policy

Appendix G – Treasury Management Practices

BACKGROUND PAPERS

CIPFA's Treasury Management in the Public Services: Code of Practice 2001 as revised November 2009 & November 2011

CIPFA's Prudential Code for Capital Finance in Local Authorities 2003 as revised November 2009 & November 2011

Local Government Act 2003

DCLG Investment Guidance

DCLG Minimum Revenue Provision Guidance

Local Authorities (Capital Finance and Accounting Regulations) 2003

PWLB Circulars

APPENDIX A

TREASURY MANAGEMENT ACTIVITY 2012/13

1. The approved strategy for 2012/13 is set out below

Factors in Formulation of the Strategy

- The Commissioner has projected average daily surplus funds of £60.4m **(The revised figure as at 31 December is £71.5m)**

- The average cost of new borrowing was projected to be 3.98% for long term funds and 0.6% for short term. **(The revised figures as at 31 December are 0% as no borrowing is to be taken and 0.41%).**

- Investments were estimated to earn 0.95%. **(The revised figure is projected to be 0.86%)**

- The Commissioner's supported borrowing was estimated at nil.

- The Commissioner's prudential/replacement borrowing was estimated at £14.0m, but due to economic considerations this has not been taken. The Commissioner is expected to be £25.3m underborrowed at the end of 2012/13. Due to a healthy cash flow position, and the current poor economic climate it is unlikely that any borrowing will be taken during the remainder of the year.

Objectives of the Strategy

- ECONOMY: to achieve the lowest net interest rate costs, whilst recognising the risk management implications

- STABILITY: to prevent the need for excessive borrowing in future years when rates may be unfavourable and to protect the annual revenue budget from short term fluctuations in interest rates.

The Strategy

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.

- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.

- To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

- To observe the prudential indicators for maturity profile.

- To maintain a spread of maturity dates for investments.

2. There was an expected borrowing requirement of £14.0m in 2012/13, net of MRP (the amount required to be charged to the revenue account).

3. As at 31 March 2012 the capital financing requirement (underlying need for long term borrowing) stood at £119.654m in comparison with total external debt of £93.423m Capital expenditure of £3.032m was slipped from the 2011/12 programme into 2012/13, and the programme was subsequently reviewed and reprofiled. This had the effect of increasing the borrowing requirement for 2012/13 to some £31.3m.

4. No borrowing has been undertaken in 2012/13 to date and savings of £557,000 are likely to arise as a result. Additional savings are predicted of £1.2m in relation to the minimum revenue provision (MRP) due to increased direct revenue financing. Consequently a capital financing reserve has been agreed within the Medium Term Financial Forecast. This reserve comprises the interest and MRP savings on previous years capital programmes as a result of the utilisation of internal cash flows as opposed to borrowing. It is intended that the reserve will be utilised in later years to finance the underborrowing once it is taken.

5. The Commissioner's long term external borrowing is therefore estimated to have decreased from £93.4m at 31 March 2012 to £92.9m at 31 March 2013, as no new borrowing has been taken, and there has been a reduction for the natural repayment of principal on existing loans.

6. The debt portfolio now consists of fixed rate loans ranging from 2.76% to 9.5% and one variable rate loan currently at 0.58% (Average 4.39%), and has a likely current year cost for interest payable of £4.094m.

7. The original estimate for interest receivable (for period and overnight investment of surplus funds) was £0.573m; the revised estimate being £0.614m.

8. As at 28 February 2013 a total of 25 investments, amounting to £133.7m had been made with approved institutions, for periods ranging from five days to 24 months and interest rates ranging from 0.25% to 2.25%.

9. During October 2008 a number of Icelandic banks went into Administration. At that time the Authority had £6m invested in Icelandic Banks, £3m in each of the Heritable and Landsbanki Banks.

   Latest information is as follows:

   a. Heritable

   A thirteenth dividend of 2.7p in the pound was paid in January 2013, bringing total payments to date to £2.353m. This equates to 77.2% of the claim.

   Forecast recoveries remain consistent with Administrators projections for overall recoveries amounting to between 86 and 90 pence in the pound.

b. Landsbanki

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The Icelandic Supreme Court decision to grant UK Local Authorities priority status, the winding up board made a distribution to creditors in a basket of currencies on February 2012.

An element of distribution was in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk over which the Commissioner has no control.

Additional dividends of £183,268 were received in October 2012, bringing the total payments to date to £1.493m.

APPENDIX B

TREASURY MANAGEMENT POLICY STATEMENT

1. The Commissioner defines his treasury management activities as:

   "The management of the Commissioner's cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. The key principles underpinning treasury management activities are as follows:

2.1 The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Commissioner, and any financial instruments entered into to manage these risks.

2.2 The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and employing suitable performance measurement techniques, within the context of effective risk management.

2.3 The Commissioner's high level policies for borrowing and investments are:

Borrowing

- If it was felt that there is a significant risk of a sharp fall in long and short term rates, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Investments

- The Commissioner's investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of its investments on time first, with ensuring adequate liquidity second and investment return third. In the current economic climate there is over-riding risk consideration, that of counterparty security. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

  The Commissioner will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

APPENDIX C

POLICE AND CRIME COMMISSIONER FOR WEST YORKSHIRE

TREASURY MANAGEMENT STRATEGY STATEMENT

2013/14

1. **Approved Activities of Treasury Management.**
2. **Formulation of Treasury Management Strategy.**
3. **Proposed Strategy.**

1. **APPROVED ACTIVITIES OF TREASURY MANAGEMENT**

Treasury Management encompasses the following:

a) Raising loans to fund capital payments, to refinance maturing debt and to cover any temporary short-term cash flow deficits.

b) Arranging other financial instruments and credit arrangements.

c) Debt restructuring to improve portfolio efficiency.

d) Investment of the Commissioner's long term and short term cash surpluses.

e) Managing the Commissioner's cash flow.

f) Arranging leasing finance (excluding land and buildings) on behalf of the Commissioner.

g) Dealing with financial institutions and brokers.

2. **FORMULATION OF TREASURY MANAGEMENT STRATEGY**

This involves a consideration of the following:

a) General objectives when financing capital expenditure.

   i) To minimise the net revenue costs of debt.

   ii) To optimise the use of borrowing, usable capital receipts, capital grants, operating leases and revenue resources.

   iii) To comply with all statutory controls and professional guidelines relating to treasury management.

b) The prospects for interest rates - General commentary

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. Availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth

Economic growth has basically flat lined since the election of 2010 and economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic activity.

Unemployment

The Government’s austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate

Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of the year, though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating

On 24 February 2013 Moody's cut their UK rating to Aa1. This means that the UK has lost its AAA status for the first time since 1978.

By way of explanation Moody’s statement said, "The main driver underpinning Moody's decision to downgrade the UK's government bond rating to Aa1 is the increasing clarity that, despite considerable structural economic strengths, the UK's economic growth will remain sluggish over the next few years due to the anticipated slow growth of the global economy and the drag on the UK economy". The outlook for the UK was deemed "Stable" which indicates that the agency sees little prospect of a further cut in the near term and they added that "the UK's creditworthiness remains extremely high".

Economists are however predicting that there will be little impact in reality if the UK is to follow the experiences of the US and France. When they lost their AAA ratings last year borrowing costs actually fell post-downgrade. .

Sector’s forward view

Economic forecasting remains difficult and the economy remains relatively fragile, with many areas of uncertainty

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are additional upside risks to PWLB rates and gilt yields, for example UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields.

ii) Interest rates are currently as follows:

Short Term		**Long Term**	
Base Rate	0.5%	5 year	2.17%
1 month	0.5%	10 year	3.10%
12 months	0.75%	20 year	4.06%

The Commissioner employs Sector to advise on treasury management and their view of the expected interest rates is as follows:

Annual Average %	**Bank Rate**	**Money Rates**		**5-year PWLB**	**25-year PWLB**	**50-year PWLB**
		3 Month	**1 Year**			
	%	**%**	**%**	**%**	**%**	**%**
2012/13	0.5	0.50	1.00	1.5	3.8	4.0
2013/14	0.5	0.50	1.00	1.7	3.9	4.1
2014/15	0.5	0.70	1.30	2.2	4.3	4.5
2015/16	1.75	1.70	2.10	2.9	5	5.2

c) Borrowing and Debt Strategy

i) The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Commissioner will take a cautious approach to its treasury strategy:

- If it was felt that there is a significant risk of a sharp fall in long and short term rates, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

- The Commissioner’s Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing, taking into account the risks identified in the forecast above. This may include borrowing in advance of future years requirements to the extent allowed within CLG guidance.

ii) Where borrowing is taken in advance of need:

- Borrowing will only be taken up to 1 year in advance of expenditure

- Excess funds, as a result of taking borrowing in advance of need, will be invested with high quality counterparties as set out in the annual investment strategy

iii) The estimated borrowing requirement is £31.41m covering the impact of prudential borrowing and maturing debt net of MRP. It is anticipated that borrowing will be postponed for as long as possible during 2013/14 for as long as is practicable under the current economic conditions. Borrowing may be required, however, dependent upon the cashflow. The interest on this borrowing will be funded via the capital financing reserve.

iv) Maturity Profile

- It is considered good practice to have a reasonably even spread of maturity dates for outstanding loans, thereby avoiding the need to replace a large proportion of total borrowings in a single year.

- The Commissioner's current policy is to observe the Prudential Indicators for maturity profile.

- The maturity limit will continue to be reviewed as the Commissioner strives to achieve the best practice requirements of the Prudential Code.

d) Investment Strategy

i) The Commissioner’s investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of its investments on time first, with ensuring adequate liquidity second and investment return third. In the economic climate outlined above, there is over-riding risk consideration, that of counterparty security. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

ii) Given the likelihood of the return of Icelandic investments in foreign currency, the Commissioner’s Chief Finance Officer is authorised to agree a forward fix of exchange rates with the Commissioner’s Bank for the receipt of foreign currencies.

iii) This authorisation only extends to the purposes of receiving distributions in foreign currencies from the Winding-Up Boards of Icelandic Banks and only in circumstances where the Commissioner's Chief Finance Officer in her professional judgement determines that it is financially beneficial for the Commissioner to agree forward rates.

iv) Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current Bank Rate of 0.5% remaining flat but with the possibility of a rise in mid/late 2013. The Commissioner's investment decisions are based on comparisons between the rises priced into market rates against the Commissioner's and advisors own forecasts.

v) There continue to be operational difficulties relating to the current eurozone crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

vi) The Commissioner will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

vii) The criteria for choosing counterparties set out in Appendix E provide a sound approach to investment in "normal" market circumstances. Whilst members are asked to approve this base criteria, under the exceptional current market conditions the Commissioner's Chief Finance Officer will 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 will be restricted.

viii) Examples of these restrictions would be use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local Commissioner deposits), Money Market Funds, and guaranteed deposit facilities. The investment criteria reflect these facilities.

ix) With the Commissioner having average estimated surplus funds of £67.3m it is likely that a mix of all the options available to the Commissioner will be undertaken. Interest rates will be monitored on an ongoing basis and investment decisions taken accordingly.

x) All investments will be made in accordance with the Commissioner's investment policies and prevailing legislation and regulations. The Commissioner's Proposed Investment Strategy is attached at Appendix E.

e) Risk Benchmarking

i) Yield benchmarks are currently widely used to assess investments' performance. The application of liquidity and security benchmarking are more subjective in nature and the application of indicators and benchmarks have been developed by officers in conjunction with the Commissioner's treasury advisors to ensure the system is robust and appropriate.

ii) These benchmarks are simple preferred restrictions (not strict limits) and so the actual position may from time to time be over these benchmarks, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend positions, and feedback from the monitoring analysis may amend the day to day operational strategy. For instance if the counterparty risk position worsens any new investments would be made with stronger counterparties to compensate.

iii) The broad benchmark indicators which officers will monitor are:

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

- 0.03% historic risk of default when compared to the whole portfolio.

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

- Bank overdraft - £0.1m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted Average Life benchmark is expected to be 150 days, with a maximum of 1 year.

Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 1 Month LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years
Maximum	0.04%	0.10%	0.20%

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

f) Cash flow

i) Estimates are made of the Commissioner's cash flow on an annual, weekly and daily basis.

ii) Daily cash flows will be monitored to achieve minimum utilisation of bank overdraft facilities.

g) Leasing

i) With the borrowing freedoms introduced in the new Prudential Framework the future utilisation of leasing, as a way of acquiring assets, will be reviewed to ensure that the most economical option is chosen.

h) Budgetary Constraints

i) The Commissioner's net interest budget is made up of interest paid on external borrowing offset by income on interest earned on investments. Any treasury management decisions must therefore take into account the impact on the net position.

3. PROPOSED STRATEGY

The following Treasury Management strategy is proposed for 2013/14.

i) To undertake approved prudential borrowing in order to support the capital programme, together with maturing loans. Borrowing will only be undertaken where absolutely necessary, or if there is likely to be a sharp increase in interest rates.

iii) To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

iv) To manage the Commissioner's debt maturity profile in accordance with the Prudential Indicators.

v) To maintain a spread of maturity dates for investments.

Factors in Formulation of the Strategy

- The Commissioner has projected average daily surplus funds of £67.3m.
- New borrowing is not predicted, however, should the need arise the cost of borrowing is projected to be 4.36% for long tem funds and 0.5% for short term. Investments are estimated to earn 0.91%.
- Due to the minimum revenue provision exceeding the additional requirement for Prudential borrowing, it is not anticipated that the Commissioner will need to borrow during 2013/14 as a result of the capital programme. It is anticipated that the Commissioner will be underborrowed by £24.8m at the end of the 2012/13 financial year, and as a result some of this borrowing may be taken during 2013/14. Budgetary provision for the whole of the underborrowing has been made through the debt charges reserve.

Objectives of the Strategy

- ECONOMY: to achieve the lowest net interest rate costs, whilst recognising the risk management implications, and consistent with

- STABILITY: to prevent the need for excessive borrowing in future years when rates may be unfavourable, and to protect the annual revenue budget from short term fluctuations in interest rates.

The Strategy

- To borrow sufficient funds to meet the requirements of the Capital Programme, to replace maturing debt, and to meet any short term cash flow requirements.

- To monitor fixed and variable interest rates and if it is considered appropriate to have up to the level of investable funds on variable rates of interest.

- To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved.

- To observe the prudential indicators for maturity profile.

- To maintain a spread of maturity dates for investments.

APPENDIX D

PRUDENTIAL INDICATORS
2012/13 – 2015/16

Capital Expenditure

The actual capital expenditure incurred in 2011/12 and the estimates of capital expenditure included within the capital forecast are:

2011/12 £000 Actual	2012/13 £000 Estimate	2013/14 £000 Estimate	2014/15 £000 Estimate	2015/16 £000 Estimate
24,074	13,606	17,393	9,231	8,547

Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of capital financing costs to net revenue stream for the current and future years, and the actual figures for 2011/12 are:

2011/12 £000 Actual	2012/13 £000 Estimate	2013/14 £000 Estimate	2014/15 £000 Estimate	2015/16 £000 Estimate
0.018	0.022	0.021	0.023	0.028

Capital Financing Requirement

	2011/12 £000 Actual	2012/13 £000 Estimate	2013/14 £000 Estimate	2014/15 £000 Estimate	2015/16 £000 Estimate
General	119,654	118,254	123,803	119,254	111,091
PFI	0	26,956	113,326	109,052	105,624
Total:	**119,654**	**145,210**	**237,129**	**228,306**	**216,715**

The capital financing requirement measures the Commissioner's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Commissioner does not associate borrowing with particular items or types of expenditure.

The Commissioner has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Commissioner has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices.

In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Commissioner and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Commissioner's underlying need to borrow for a capital purpose.

CIPFA’s Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Commissioner should ensure that net external borrowing 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"

The Commissioner’s Chief Finance Officer and Force Assistant Chief Officer report that the Commissioner had no difficulty meeting this requirement in 2011/12, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in this budget report.

Gross Debt and the CFR

This is a new indicator this year. Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates activities within well defined limits. One of these is that the Commissioner needs to ensure that its 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 2013/14 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.

	2011/12 £000 Actual	**2012/13 £000 Estimate**	**2013/14 £000 Estimate**	**2014/15 £000 Estimate**	**2015/16 £000 Estimate**
Gross Market and PWLB Debt	93,423	92,923	92,423	91,923	91,423
Temporary Borrowing	30,100	30,100	30,100	30,100	30,100
Other Long term Liabilities (PFI)	0	26,956	113,326	109,052	105,624
Total Borrowing	**123,523**	**149,979**	**235,849**	**231,075**	**227,147**
CFR – Capital Programme	119,654	118,254	123,803	119,254	111,091
CFR – PFI additions	0	26,956	113,326	109,052	105,624
Total CFR	**119,654**	**145,210**	**237,129**	**228,306**	**216,715**
Over/ (under) borrowing	**3,869**	**4,769**	**1,280**	**2,769**	**10,432**

The Commissioner is forecast to be over borrowed in aggregate during the reporting period. This is due to the current economic situation when increased levels of temporary borrowing have been taken to support working capital and assist with the cash flow.

Authorised Limit for External Debt

It is recommended that the Commissioner approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the revised reduced limit for the current year.

	2012/13 £000 Estimate	**2013/14 £000 Estimate**	**2014/15 £000 Estimate**	**2015/16 £000 Estimate**
Borrowing	160,000	167,000	162,000	153,000
Other long term liabilities (PFI)	30,000	126,000	121,000	118,000

The limits separately identify borrowing and other long term liabilities such as finance leases. Other long term liabilities,' relate mainly to the PFI Schemes. The figures above are early indications of the likely liability taken from the PFI financial model. The model may alter in subsequent years as further progress is made and this will have a consequential impact on the indicator.

The Commissioner is asked to approve these limits and to delegate authority to the Chief Constable, in consultation with the Commissioner's Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the Commissioner. Any such change made will be reported to the Commissioner at the earliest opportunity.

The Commissioner's Chief Finance Officer and Force Assistant Chief Officer report that these authorised limits are consistent with the Commissioner's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Commissioner's Chief Finance Officer and Force Assistant Chief Officer confirm that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes have been taken into account.

Operational Boundary for External Debt

The Commissioner is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Commissioner's Chief Finance Officer's and Force Assistant Chief Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The operational boundary represents a key management tool for in year monitoring by the Commissioner's Chief Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Commissioner is asked to delegate Commissioner to the Chief

Constable, in consultation with the Commissioner's Chief Finance Officer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Commissioner at the earliest opportunity.

	2012/13 £000 Estimate	**2013/14 £000 Estimate**	**2013/14 £000 Estimate**	**2014/15 £000 Estimate**
Borrowing	118,000	124,000	122,000	122,000
Other long term liabilities	27,000	114,000	110,000	107,000

In taking its decisions on this budget report, the Commissioner is asked to note that the authorised limit determined for 2013/14 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Impact of Capital Expenditure Proposals on Precept

The estimate of the incremental impact of capital investment decisions proposed in 2013/14 and the forecast for 2014/15 to 2015/16 over and above capital investment decisions that have previously been taken by the Commissioner are:

	2013/14 £p Estimate	**2014/15 £p Estimate**	**2015/16 £p Estimate**
Impact on Band D Council Tax	1.16	0.07	0.88

Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

The Commissioner has adopted this code as shown in Financial Regulation 3002.

Interest Rate Exposures

The Commissioner must set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. The indicators relate to both fixed interest rates and variable interest rates.

(i) Upper Limit on Fixed Interest Rates

The Commissioner's upper limit for fixed interest exposure for the period 2013/14 – 2014/15 is **£5.0m p.a.**, based on the anticipated fixed interest payments net of any anticipated fixed income over the period.

(ii) Upper Limit on Variable Interest Rate Exposures

The Commissioner's upper limit for variable interest exposure for the period 2013/14 – 2014/15 is **£2.0m p.a.**, based on the anticipated variable interest payments net of any anticipated variable income over the period.

Maturity Structure of Borrowing

The Commissioner must set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. The indicator identifies the amount of projected borrowing that is fixed rate and maturing in each period expressed as a percentage of total projected fixed rate borrowing. The percentages are shown below over the specified periods.

	Upper Limit %	**Lower Limit %**
Under 12 Months	30	0
12 Months and within 24 Months	40	0
24 Months and within 5 Years	60	0
5 Years and within 10 Years	80	0
10 Years and within 20 Years	100	0
20 years and within 30 Years	100	0
30 Years and within 40 Years	100	0
40 Years and within 50 Years	100	0
50 Years and above	100	0

Total Principal Sums invested for periods longer than 364 days

If the Commissioner invests or plans to invest for longer than 364 days it has to set an upper limit for each financial year for the maturity of such investments.

	2013/14 £m	**2013/14 £m**	**2014/15 £m**
Total Principal Sum invested to final maturities beyond the period end	15	15	15

APPENDIX E

West Yorkshire Police Commissioner

Proposed Investment Strategy

1. Overview

1.1 The Secretary of State has issued revised guidance, in accordance with powers contained in the Local Government Act 2003, in respect of investments and the Police and Crime Commissioner is required to have regard to this guidance.

1.2 The Secretary of State recommends that the Police and Crime Commissioner should approve the strategy before the start of the financial year. The strategy may be varied at any time during the year, again with the approval of the Police and Crime Commissioner.

1.3 The key requirements of the guidance are to set an annual investment strategy covering the identification and approval of the following:

- Strategy guidelines for decision-making
- Liquidity issues: The guidance recommends that priority should be given to security and liquidity. It is however appropriate to seek the highest rate of return consistent with the proper levels of security and liquidity.
- Specified investments policy
- Non-specified investments policy

1.4 The general policy is that the Commissioner should invest surplus funds prudently.

1.5 It is also recommended that the initial Strategy, when approved, should be made available to the public free of charge. This can be in print or on-line.

2. INVESTMENT STRATEGY 2012/13– 2014/15

2.1 Strategy Guidelines

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. Secondary to the satisfaction of the primary principle the Commissioner will also ensure: -

- He has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed

- He maintains a policy covering the categories of investment types it will invest in, and the criteria for choosing and monitoring counterparties and the adequacy of their security. This is set out below in the sections dealing with specified and non-specified investments.

2.2 Investment Counterparty Selection Criteria

2.2.1 The Commissioner's Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Commissioner as necessary. This criteria is separate to that which chooses Specified and Non-specified investments as it provides an overall pool of counterparties considered high quality which the Commissioner may use rather than defining what its investments are.

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

Banks 1 - Good Credit Quality – the Commissioner will only use banks which:

Are UK banks; and/or

Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA from 2 out of 3 agencies, provided the third is no lower than AA+

And have, **as a minimum**, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

Short Term – F1

Long Term – A

Viability Rating/ Financial Strength – Fitch / Moody's only. Non-UK banks BB+/C

Support – 3 (Fitch only)

Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above**.**

Banks 3 – **In addition the Commissioner will use**:

The Commissioner's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Building Societies – the Commissioner will only use Building Societies which meet the ratings for banks outlined above

Money Market Funds – Long-term credit rating AAA

UK Government (the DMADF)

A local authority, Police and Crime Commissioner, fire authority, parish authority or community authority

2.2.3 A limit of £30m will be applied to the use of Non-specified investments.

2.2.4 Country and Sector Considerations

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 Banks 1 above. In addition:

- No more than £10m will be placed with any non-UK country at any time;
- Limits of £10m will apply to Banking Groups.
- Sector limits will be monitored regularly for appropriateness.

2.2.5 Use of additional information other than credit ratings

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.

2.2.6 Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Commissioner's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch (or equivalent)		**Money Limit**	**Time Limit**
	Short Term	**Long Term**		
Banks 1	F1+	AA	£5m	3yrs
Banks 1	F1+	AA-	£3m	3yrs
Banks 1	F1	A+	£5m	2yrs
Banks 1	F1	A	£5m	364 days
Building Societies	F1	A	£3m	364 days
Other Institution Limits (Other Local Authorities)	-	-	£5m	2yrs
Banks 2 – Part nationalised UK Banks	-	-	£5m	Up to 1 year while they continue to be part-nationalised or as for Banks 1 if they meet the minimum credit criteria
Banks 3 The Commissioner's own Banker			Unlimited unless it falls below F1 A (to be kept within Non-Specified Limit)	Kept to a minimum
MMFs (Money Market Funds)	-	AAA	£5m	364 days
DMADF (Debt Management Account Deposit Facility)	-	-	Unlimited	364 days

Within any of the limits above the maximum amount to be invested in any one institution at any time is £10m (excluding own banker and DMADF).

The maximum total amount which can be invested in periods longer than 364 days is £15m (maximum of £10m in 2 to 3 year period).

2.3 Liquidity of Investments

2.3.1 In the normal course of the Commissioner's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

2.3.2 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Commissioner's liquidity requirements are safeguarded. This will also be limited by the longer-term investments limits.

2.4 Specified Investments

2.4.1 An investment is a specified investment if:

- It is sterling denominated.
- It is not a long-term investment (i.e. due to be repaid within 12 months of the date on which the investment was made, or one which the Commissioner may require to be repaid within that period).
- The making of the investment is not defined as capital expenditure.
- The investment is made with a body or in an investment scheme of *'high credit quality'* or is made with any one of the following public sector bodies:

  - The United Kingdom Government.
  - A Local Authority in England and Wales or a similar body in Scotland or Northern Ireland (includingPolice & Crime Commissioner and fire Authorities).
  - A Parish Council or Community Council.

2.4.2 The following ratings (provided by the credit rating agencies) are the minimum the Commissioner will use to determine that a body has "high credit quality" as required by the CLG guidance. Investments will not be made below these levels except where allowed for elsewhere in the Investment Strategy:

Agency	Long Term	Short Term
Fitch IBCA	AAA, AA+, AA, AA-, A+, A	F1+, F1
Moody's	Aaa, Aa1, Aa2, Aa3, A1, A2	P-1
Standard & Poor's	AAA, AA+, AA, AA-, A+, A	A-1+, A-1

Determining the ratings at this level for the placing of investments means that the ratings would have to be reduced by at least two levels before causing concern.

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 revised CIPFA Treasury Management Code of Practice.

The lowest common denominator will not apply to Sovereign ratings for non UK domiciled banks where the bank is rated AAA by two out of the three agencies and the third rating is no lower than AA+.

2.4.3 The list of specified investments for West Yorkshire Police Commissioner is as follows:

All less than 364 days
INSTITUTION / INSTRUMENT
• The UK Government (including the Debt Management Office and UK Treasury Bills). • A local Authority, police & crime commissioner, fire authority, parish authority or community authority • Pooled investment vehicles (such as money market funds) that have been awarded a high long term credit rating by a credit rating agency (AAA being the highest rating provided by credit rating agencies) • A body that is considered of a high credit quality (such as Banks and Building Societies).

2.4.4 It is acknowledged within the financial markets that a short-term credit rating determines an Institutions' ability and willingness to honour its obligations within a time horizon of less than 13 months and takes account of the banks liquidity. In order to allow more flexibility short-term investments can be made by reference to the short-term investment criteria only.

2.5 Non-Specified Investments

2.5.1 Non-specified Investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are below.

2.5.2 The Commissioner will review the categories of non–specified investments on an annual basis and amend the categories appropriately.

2.5.3 The current policy is that the Commissioner will utilise the same categories of institutions for both specified and non – specified investments. The only difference being:

- The timescale – non-specified investments are in most cases for more than 364 days.

2.5.4 The current list of non – specified investments is set out below:

- Part nationalised UK banks – where they do not meet the basic credit criteria.
- The Commissioner's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
- A local Authority, police and crime commissioner, fire Authority, parish Council or community Council

2.5.5 Within the limits set out in paragraphs 2.2.6 and 2.5.4, excluding those for UK government, and the Commissioner's own banker, the maximum amount that may be invested in any one institution at any one time, taking specified and non specified investments together, is £10m.

2.5.6 The maximum amount which can be invested in periods longer than 364 days is £15m.

2.6 Monitoring Credit ratings

2.6.1 The credit ratings of counterparties are monitored on a weekly basis using credit rating information received from our Treasury Consultants on all active counterparties that comply with the above criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are received from our treasury consultants almost immediately after they occur and this information is used to review the counterparty list before dealing. The information provided includes the credit ratings and potential changes to credit ratings of counterparties with whom the Commissioner has current investments.

2.6.2 If a rating is downgraded on an institution with which the Commissioner has an existing investment then the following action is taken:

- If it goes below the minimum criteria the Commissioner has established (with all Agencies with whom the Counterparty is rated), the risk implications are discussed with our external advisors and if it is deemed appropriate a request is made to return the investments (It should be noted, however, that the general position taken by Investment Counterparties is not to return wholesale term deposits before the maturity date).

- If it remains within the investment criteria then the risk implications are discussed with our external advisors and the position monitored.

2.6.3 Any counterparty failing to meet the minimum criteria is immediately removed from the investment list and will not be considered for new investments.

2.6.4 Where ratings are upgraded, new counterparties are added to the list when they meet the minimum criteria.

2.6.5 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria, under the exceptional current market conditions the Commissioner's Chief Finance Officer may 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 will be restricted.

2.6.6 Examples of these restrictions would be use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local Commissioner deposits), Money Market funds and guaranteed deposit facilities.

2.7 External Service Providers

2.7.1 Treasury Management Providers - The Commissioner uses Sector as its treasury management consultants through its Service Level Agreement with Wakefield MDC. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

Whilst the advisers provide support to the internal treasury function through the Service Level Agreement, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Commissioner. This service is subject to regular review.

Software Providers – The Commissioner uses Treasurynet Ltd as its provider of cashflow software through its Service Level Agreement with Wakefield MDC. The software is used to maintain loan and investment records along with daily cashflow transactions in order to inform borrowing and investment decisions.

2.8 Commissioner and Officer Training

2.8.1 The increased consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for officers.

Officer Training – Regular Intermediate and Advanced Treasury Management training is undertaken by key members of staff. The majority of this training is provided by Sector, however, staff are encouraged to undertake other relevant training as it becomes available.

Training for the Police and Crime Commissioner and members of the Independent Audit Committee is available through the regular Treasury Management courses provided by Sector as part of the Service Level Agreement.

APPENDIX F

MRP POLICY

1. All expenditure incurred by the Commissioner must be charged to the revenue account in the year it is incurred, with the exception of items which can be capitalised in accordance with proper accounting practice – in essence items which have an expected life of more than one year.

2. Capital expenditure on such items (land, buildings, IT, vehicles and equipment) can be resourced in a number of ways. In the case of capital grant, capital receipts, and contributions from the revenue budget, the expenditure is effectively paid for as it is incurred by application of those resources.

3. In the case of capital expenditure financed by borrowing, the expenditure is paid for from the revenue budget by making an annual prudent provision known as a Minimum Revenue Provision (MRP) using one of the options set out in the Statutory Guidance issued by DCLG.

4. The Guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed by the Commissioner prior to the start of each financial year.

5. The intention of the guidance is to ensure that the repayment to revenue is made over a period bearing some relation to that over which the asset continues to provide a service.

6. The recommended MRP Statement is as follows:

   a. For capital expenditure incurred before 1 April 2008 or which will in the future be Supported Capital Expenditure (i.e. the amount which attracts revenue support grant through the Capital Financing Block), the MRP policy will be:

      Based on 4% of the Capital Financing requirement.

   b. From 1 April 2008 for all unsupported borrowing the MRP policy will be:

      Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations based on either the equal instalment method or the annuity method.

7. The Commissioner's policy is to finance shorter lived assets from capital receipts, grants and revenue contributions, with borrowing generally reserved for land and buildings with an expected life in excess of 25 years.

TREASURY MANAGEMENT PRACTICES

TMP1: Treasury risk management:

1. Credit and counterparty risk
   The risk of failure of a third party to meet their contractual obligations under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness.

2. Liquidity risk
   The risk that cash will not be available when needed.

3. Interest rate risk
   Fluctuations in the levels of interest rates create an unexpected or an unbudgeted burden on an organisation's finances against which it has failed to protect itself adequately.

4. Exchange rate risk
   The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on an organisation's finances.

5. Refinancing risk
   The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and revenue.

6. Legal and regulatory risk
   The risk that the organisation fails to act in accordance with its powers or regulatory requirements.

7. Fraud error, corruption and contingency management
   The failure to employ suitable systems and procedures and to maintain effective contingency management arrangements to these ends.

8. Market risk
   The risk that through adverse market fluctuations in the value of the principal sums an organisation invests, it's stated policies and objectives are compromised.

TMP2: Performance measurement

- The process designed to calculate the effectiveness of the portfolio's or manager's investment returns or borrowing costs and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognised industry standards or market indices.

TMP3: Decision-making and analysis

- Consideration of key aspects such as risk, legality, creditworthiness and competitiveness.

TMP4: Approved instruments, methods, and techniques

- Consideration of the types of investment instruments the organisation is legally able to deal in and also the level of competences available within the organisation to allow effective decisions to be taken.

TMP5: Organisation, clarity and segregation of responsibilities and dealing arrangements.

- Clear organisational and decision making lines, clearly laid down division of responsibilities, proper internal control procedures in place.

TMP6: Reporting requirements and management information requirements.

- Covering reporting lines and frequencies.

TMP7: Budgeting, accounting, and audit arrangements

- Covering manpower costs, debt and financing costs, bank and overdraft charges, brokerage commissions, external advisor's and consultants' costs.

TMP8: Cash and cash flow management

- The preparation of cash flow management forecasts and 'actuals' to determine acceptable levels of cash balances, the adequacy of overdraft facilities and the optimum arrangements for investing and managing surplus cash.

TMP9: Money laundering

- Making Treasury staff aware of the provisions of the Money Laundering Regulations 2007 and associated legislation such as the Terrorism Act 2000 and the Proceeds of Crime Act 2002, and ensuring (as far as possible) that adequate procedures are in place to ensure effective compliance with them.

TMP10: Staff training and qualifications

- Ensuring the staff training and development regime is in place and that staff are competent to operate within a treasury environment.

TMP11: Use of external service providers

- Ensuring that correct appointment and renewal procedures are followed.

TMP12: Corporate governance

- The code requires a commitment to the principles of corporate governance, which will embrace the TPS itself, treasury policies, procedural guidelines and defined responsibilities, dealings with counter parties and external bodies.