CYDBWYLLGOR ARCHWILIO

28 Mawrth 2022

Crynodeb Gweithredol Adroddiad Strategaeth Gyfalaf Ddrafft 2021-22 i 2026-27

Adroddiad gan y Prif Gwnstabl a Phrif Swyddogion Cyllid Comisiynydd yr Heddlu a Throsedd.

1. Mae'r adroddiad drafft amgaeedig yn bodloni gofynion Rheoli'r Trysorlys (RhT) CIPFA yng Nghod Ymarfer Gwasanaethau Cyhoeddus y mae'r Comisiynydd Heddlu a Throsedd angen ei ddilyn yn gyfreithiol. Mae'r brif ddogfen, y Strategaeth Gyfalaf, yn dod â'r Rhaglen Gyfalaf, Darpariaeth Refeniw ar gyfer Benthyca, Rheoli'r Trysorlys a Strategaeth Fuddsoddi a Dangosyddion y Trysorlys at ei gilydd. Y bwriad yw symleiddio'r hyn sy'n faes hynod dechnegol. Fodd bynnag, mae'r adroddiad yn parhau'n hynod dechnegol. Bydd yr adroddiad eglurhaol hwn yn egluro'r diben cyffredinol yn gryno ac amlygu'r hyn y gofynnir i'r Comisiynydd Heddlu a Throsedd gytuno iddo wrth fabwysiadu'r Strategaeth. Mae rhaid i'r Strategaeth a'i helfennau cyfansoddol gael eu cytuno'n flynyddol gan y Comisiynydd Heddlu a Throsedd. Diben cyflwyno'r adroddiad hwn i'r Cydbwyllgor Archwilio yw ar gyfer trafodaeth a sylwadau cyn ei gyflwyno i'r Comisiynydd Heddlu a Throsedd.

2. Nid oes newidiadau sylfaenol i'r strategaeth eleni.

3. Diben cyffredinol y Strategaeth Gyfalaf yw galluogi'r Comisiynydd Heddlu a Throsedd i:

- Cytuno ar y Rhaglen Gyfalaf yn ffurfiol (Atodiad A)
- Cytuno ar ba ddull sy'n cael ei fabwysiadau ar gyfer ad-dalu dyled drwy'r Datganiad Darparu Refeniw Sylfaenol (MRP) (Atodiad B)
- Cynnig fframwaith strategol ar gyfer Rheoli'r Trysorlys sy'n cwmpasu benthyca ar gyfer gwariant cyfalaf a buddsoddi balansau sy'n weddill (Atodiad C)
- Cytuno ar Ddangosyddion y Trysorlys sy'n gosod cyfyngiadau ar lefelau benthyca, yn ogystal â chyfyngiadau ar y mathau o bartïon i gontract ar gyfer buddsoddiadau (Atodiad C)

4. Mae'r Rhaglen Gyfalaf wedi'i chytuno gan y Prif Gwnstabl a'r Comisiynydd Heddlu a Throsedd fel rhan o'r cylch cynllunio gan fwydo i'r Cynllun Ariannol Tymor Canolig (CATC). Mae ymarfer pellach wedi'i ymgymryd er mwyn ailasesu cyflwyno prosiectau cyfalaf unigol yn raddol sydd wedi arwain at newid yn amseru'r prosiectau ond nid newid sylweddol i'r costau cyffredinol (Tabl 1 ac Atodiad A).

5. Gofyniad sylfaenol a hanfodol yw bod y Rhaglen Gyfalaf yn fforddiadwy o fewn yr adnoddau sydd ar gael. Cyflawnir hyn drwy gyfuniad o gyllid allanol, adnoddau ein hunain (cyllideb neu gronfeydd wrth gefn mewn blwyddyn) neu ddyled. Mae'r rhaglen yn fforddiadwy a cheir y rhaniad mewn ariannu yn Nhabl 2.

6. Rhaid ad-dalu dyled. Gwneir hyn drwy'r gyllideb refeniw drwy'r ddarpariaeth refeniw sylfaenol. Mae canllawiau statudol o ran sut yr ad-delir y ddyled. Ad-delir dyled hanesyddol (cyn 2008) ar sail y rheolau a oedd mewn lle ar adeg y balans gostyngol o 4%. Ar gyfer gwariant cyfalaf a ysgwyddwyd wedi 31.3.2008 penderfynir ar y Ddarpariaeth Refeniw Sylfaenol drwy godi'r gwariant dros oes ddefnyddiol yr ased. Mae Tabl 3 yn crynhoi'r gost, a cheir manylion pellach yn Atodiad C.

7. Gelwir cyfanswm y ddyled o ran cyfalaf yn Ofyn Cyllido Cyfalaf (GCC). Crynhoir y symudiad yn y GCC yn Nhabl 4. Cynydda cyfanswm GCC o £28.04m a amcanir ar 31.3.22 i £40.98m ar 31.3.2027.

8. Un ffynhonnell o gyllid mewnol yw Derbynebau Cyfalaf. Rhain yw'r enillion o werthu asedau. Gellir ond eu defnyddio ar gyfer ariannu gwariant cyfalaf. Gwelir y symudiad arfaethedig mewn Derbynebau Cyfalaf yn Nhabl 5.

9. Mae strategaeth Rheoli'r Trysorlys yn gysylltiedig â rheoli balansau arian parod o ran benthyca a buddsoddiadau. Rhoddir blaenoriaeth i sicrhau cronfeydd a dilynir gan hylifedd ac yna arenillion. Mae Adran 3 o'r Strategaeth Gyfalaf yn crynhoi strategaeth RhT gyda'r manylion yn Atodiad C.

10. O ran benthyg, delir y ddysgl yn wastad rhwng benthyca allanol a mewnol a benthyca tymor hir a thymor byr. Cymhlethir hyn ychydig gan incwm cyllid ddim yn cael ei dderbyn yn gyson drwy'r flwyddyn gydag un taliad mawr yn cael ei dderbyn bob mis Gorffennaf (Atodiad C, Graff 1). Mae gan fenthyciadau Tymor Byr gyfraddau llog is ond gall hyn newid dros amser.

11. Mae buddsoddiadau'n cael eu rheoli'n ddyn gan leihau risg cyn belled ag y bo modd drwy reoli partïon i gontract drwy gyfraddau credyd a rhai eraill, a chyfyngu maint a hyd buddsoddiadau.

12. Fel y Strategaeth flaenorol, mae'r lefel hylifedd sylfaenol o £10m wedi'i ehangu at ddibenion ymarferol. Mae hyn er mwyn hefyd caniatáu cyfyngiad gweithredol is o £7.5 miliwn am uchafswm o 14 diwrnod. Mae hyn er mwyn osgoi benthyca tymor byr diangen (gweler Atodiad C, paragraff 6.3)

13. Mae Tabl 10 yn dangos cyfanswm costau cyllido fel canran o gyllideb refeniw net. Amcanir i hyn gynyddu o 3.25% i 4.61% o 2022-23 i 2026-27.

14. Mae staff sydd wedi'u cymhwyso'n broffesiynol ac wedi'u hyfforddi'n benodol yn gyfrifol am wneud penderfyniadau ynghylch gwariant cyfalaf, buddsoddiadau a benthyca. Ar ben hyn, cedwir ymgynghorwyr proffesiynol er mwyn rhoi cyngor ac arweiniad yn y meysydd technegol hyn.

Capital Strategy Report 2022/23 (Draft)

1. **Introduction**

1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

1.2. Decisions made this year on capital and treasury management will have financial consequences for the Police and Crime Commissioner for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2. **Capital Expenditure and Financing**

2.1. Capital expenditure is where the Police and Crime Commissioner spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

2.2. The draft Capital Programme was presented to the Strategic Executive Board (SEB) on 8th February 2022 as part of the Medium-Term Financial Plan and agreed subject to the final ratification of this Capital Strategy. A further exercise has been undertaken to re-assess the phasing of individual capital projects which has resulted in a change in the timing of the projects but not a significant change in the overall costs. The Police and Crime Commissioner is planning capital expenditure as summarised below, with details as shown in **Appendix A**:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2020/21 actual £m	**2021/22 forecast £m**	**2022/23 budget £m**	**2023/24 budget £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Total Capital Expenditure	5.26	4.74	11.10	18.62	9.53	4.21	7.53

2.3. **Governance (capital expenditure)**: The PCC's assets and infrastructure need continual investment in order to ensure an efficient and modern working environment. Strategies for the Estates, IT and Fleet were developed during 2019-20 and a new Capital Programme agreed in 2020-21. The implementation of Operation Uplift; reviewing the requirements as part of the planning cycle; and the COVID recovery plan, has resulted in revisions to the planned Programme. COVID has resulted in some re-phasing of the Programme due to delays. Major projects such as ESN and the Command and Control System upgrade have also been under review. The draft Capital Programme 2021-22 to 2026-27 is an update of last year's Programme reflecting changes in time and/or costs (see Appendix A).

2.4. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Police and Crime Commissioner's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget * £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
External sources	0.12	0.17	0.00	0.00	0.00	0.00	0.00
Capital resources	0.09	0.10	0.53	0.10	0.75	0.10	0.10
Revenue resources	2.85	3.65	5.33	5.44	2.88	2.90	2.73
Debt	2.20	0.82	5.24	13.08	5.90	1.21	4.70
TOTAL	**5.26**	**4.74**	**11.10**	**18.62**	**9.53**	**4.21**	**7.53**

2.5. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP repayments are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Budgeted MRP (Own resources)	2.63	2.75	2.39	2.59	3.87	4.15	4.17

- The Police and Crime Commissioner's full minimum revenue provision (MRP) statement is shown in Appendix B to this report.

2.6. The Police and Crime Commissioner's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £2.84m during 2022/23. Based on the above figures for expenditure and financing, the Police and Crime Commissioner's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Total CFR	29.97	28.04	30.88	41.37	43.40	40.46	40.98

* the CFR estimate does not take into account any potential increase arising from a change in the accounting for leases as the introduction date of these changes is likely to be delayed.

2.7. **Asset management:** To ensure that capital assets continue to be of long-term use, the Police and Crime Commissioner has an asset management strategy in place.

2.8. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Police and Crime Commissioner plans to receive £0.52m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Opening balance	**0.05**	**2.08**	**3.42**	**3.61**	**3.74**	**3.36**	**3.26**
Receipts	2.12	1.61	0.52	0.50	0.37	0.00	0.00
Budgeted use	(0.09)	(0.27)	(0.33)	(0.37)	(0.75)	(0.10)	(0.10)
Balance	**2.08**	**3.42**	**3.61**	**3.74**	**3.36**	**3.26**	**3.16**

3. Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Police and Crime Commissioner's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Police and Crime Commissioner is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2. The Treasury Management Strategy (Appendix C) sets out the parameters under which the Treasury Management activities are governed and monitored. These are based on prioritising security first, liquidity second and yield last. This does reduce potential investment income but minimises the risk of losing money through riskier investments. The below summarises the main points of the Treasury Management Strategy.

3.3. **Borrowing strategy:** The Police and Crime Commissioner's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Police and Crime Commissioner therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5 to 2.5%).

3.4. The Borrowing Strategy is also balanced by revenue cash available being used rather than borrowing, known as internal borrowing. Internal borrowing has been used extensively over recent years generating savings in interest charges per year and reducing risk by not investing cash. However, use of reserves to fund Capital has reduced the available amounts to internally borrow. Another factor to consider is that the Police and Crime Commissioner's income is not constant during the year; this is due to a Pension Grant of around £20m being received in one lump sum each July.

3.5. Projected levels of the Police and Crime Commissioner's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Debt (incl. PFI & leases)	18.48	17.10	15.65	14.12	12.50	10.79	8.97
Capital Financing Requirement	29.97	28.04	30.88	41.37	43.40	40.46	40.98

3.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Police and Crime Commissioner expects to comply with this in the medium term.

3.7. **Liability benchmark:** To compare the Police and Crime Commissioner's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2021 actual £m	31.3.2022 forecast £m	31.3.2023 budget £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Outstanding borrowing	9.38	8.88	8.38	7.88	7.38	6.88	6.38
Liability benchmark	(2.09)	(3.63)	5.98	19.99	24.81	24.11	26.46

The outstanding borrowing in the table above shows the current level of committed borrowing, and the liability benchmark is an indicator of the maximum we may need to borrow in order to keep cash and investment balances above £10m. The actual level of borrowing will depend on cashflow throughout the year and will be somewhere between the two levels outlined above.

3.8. **Affordable borrowing limit:** The Police and Crime Commissioner is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit £m	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m
Authorised limit – borrowing	27.90	24.61	36.13	39.28	37.55	39.39
Authorised limit – PFI and leases	8.23	7.28	6.24	5.13	3.91	2.60
Authorised limit – total external debt	**36.13**	**31.89**	**42.37**	**44.41**	**41.46**	**41.99**
Operational boundary – borrowing	25.90	22.61	34.13	37.28	35.55	37.39
Operational boundary – PFI and leases	8.23	7.28	6.24	5.13	3.91	2.60
Operational boundary – total external debt	**34.13**	**29.89**	**40.37**	**42.41**	**39.46**	**39.99**

3.9. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.10. The Police and Crime Commissioner's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer term could be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Police and Crime Commissioner may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2021 actual £m	31.3.2022 forecast £m	31.3.2023 budget £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Near-term investments	23.05	22.50	10.00	10.00	10.00	10.00	10.00
Longer-term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**23.05**	**22.50**	**10.00**	**10.00**	**10.00**	**10.00**	**10.00**

3.11. **Risk management:** The effective management and control of risk are prime objectives of the Police and Crime Commissioner's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

3.12. **Governance (risk management):** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Police and Crime Commissioner and Joint Audit Committee (JAC). End of year and half yearly reports on treasury management activity are presented to the Strategic Executive Board (SEB) and JAC. The JAC is responsible for scrutinising treasury management decisions.

3.13. **Investments for Service Purposes:** The Police and Crime Commissioner **does not** currently make investments to assist local public services (which might include making loans to or buying shares in local service providers and/or local small businesses to promote economic growth).

3.14. **Commercial Activities:** Despite central government financial support for local public services declining, the Police and Crime Commissioner **does not** invest in commercial property purely or mainly for financial gain.

3.15. **Liabilities:** In addition to debt detailed above, the Police and Crime Commissioner is committed to making future payments to cover its pension fund costs. Police Officers' pension scheme is an unfunded scheme which is underwritten by the Government, and the liabilities stand at £1,793.0m as at 31.3.21. The cost to the Police and Crime Commissioner is the employer contribution rate, which is currently 31%. The deficit on the Staff Pension fund stood at £85.0m as at 31.3.21, this is also managed through the contribution rate which is currently set at 19%. The Police and Crime Commissioner has also set aside £1.2m as a provision to cover risks of insurance claims and employment cases. The Police and Crime Commissioner is also at risk of having to pay for claims lodged with the Central London Employment Tribunal. These risks have been recognised as Contingent Liabilities in the Statement of Accounts, but the Police and Crime Commissioner has not put aside any money because the claims are subject to appeal, and there is uncertainty regarding remedy and quantum.

3.16. **Governance (liabilities):** Decisions on incurring new discretional liabilities are taken by the Chief Officer Team in consultation with the Police and Crime Commissioner and his Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by Corporate Finance and reported to the Strategic Management Board (SMB) and SEB as necessary. Details of contingent liabilities as at 31 March will be included in the annual Statement of Accounts.

4. <u>Revenue Budget Implications</u>

4.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP for reducing the CFR are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Direct revenue contributions to capital are also charged to revenue but are **not** included in the below indicator.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	3.65	3.69	3.25	3.35	4.53	4.71	4.61
Financing costs as % of net revenue stream	**2.2%**	**2.1%**	**1.8%**	**1.8%**	**2.4%**	**2.4%**	**2.4%**
Level of debt (£m)	18.48	17.10	15.65	14.12	12.50	10.79	8.97
Level of debt as % of net revenue stream	11.3%	9.9%	8.6%	7.5%	6.5%	5.5%	4.4%
Level of CFR as % of net revenue stream	18.3%	16.2%	16.9%	22.1%	22.6%	20.5%	20.3%

4.2. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Police and Crime Commissioner's Finance Officer and the Director of Finance and Resources are satisfied that the proposed capital programme is prudent, affordable and sustainable as there are revenue streams or reserves in place to fund the Programme as set out. It is likely that additional resources will need to be budgeted for future investments beyond the current Programme.

5. **Knowledge and Skills**

5.1. The Police and Crime Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Training is provided to all staff involved in making capital expenditure, borrowing and investment decisions.

5.2. Where the Police and Crime Commissioner's staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Police and Crime Commissioner currently employs Arlingclose Limited as treasury management advisers, Wilks Head and Eve as property consultants and BDO as tax consultants. This approach is more cost effective than employing such staff directly, and ensures that the Police and Crime Commissioner has access to knowledge and skills commensurate with its risk appetite.

APPENDIX A

2020-21 Actuals	Description	2021-22 Revised Estimate	2022-23 Est	2023-24 Est	2024-25 Est	2025-26 Est	2026-27 Est	Total Project Costs 2021-22 to 2026-27
£000		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	Estate Programme							
7	Retentions, Consultancy and QS	**26**	25					**51**
	Sustainability Improvements	**32**	270	100	100	100	100	**702**
	Estates estimate 25-26 onwards					2,000		**2,000**
673	Pwllheli PS	**246**						**246**
	Holyhead PS		1,200	2,477				**3,677**
170	Force HQ Canteen							**0**
33	Caernarfon & North Gwynedd Estate Area	**170**	597					**767**
786	VCC / Vehicle Workshop	**208**	1,692					**1,900**
	Armed Alliance	**20**	360					**380**
	Dolgellau PS				1,200			**1,200**
	Abergele PS		391					**391**
	Llanrwst PS				178			**178**
	Flintshire PS - North			700	2,300			**3,000**
	Flintshire PS - South		200	3,500	450			**4,150**
	Force Control Room Upgrading		100					**100**
	Archive Store				750			**750**
	Rhosllanerchrugog PS				190			**190**
	Re locate/ co locate/ vacate	**55**	295					**350**
	Firearms Base works	**354**	30				2,000	**2,384**
	CS - SARC ISO Accreditation	**48**	150					**198**
1,669	**Total Building Works**	**1,159**	**5,310**	**6,777**	**5,168**	**2,100**	**2,100**	**22,614**
	Vehicles and Other Equipment							
1,727	Vehicle Purchase Replacement Programme	**800**	2,565	1,626	1,620	1,756	1,300	**9,667**
	PSU Vehicles (replacemnt programme)				780			**780**
	Electric Vehicles			41	41	41	41	**164**
	Tranman development		75					**75**
	Intoxilators x 3		30					**30**
	ANPR replacement	**105**	150					**255**
	Collision Surveying Equipment	**175**						**175**
1,727	**Total Vehicles and Other Equipment**	**1,080**	**2,820**	**1,667**	**2,441**	**1,797**	**1,341**	**11,146**

2020-21 Actuals £000	Description	2021-22 Revised Estimate £000	2022-23 Est £000	2023-24 Est £000	2024-25 Est £000	2025-26 Est £000	2026-27 Est £000	Total Project Costs £000
	Information Technology and Communication Equipment							
1,103	Desk Top Replacement (Replacement Programme)	407	515	930	825	310	750	3,737
	NEP Device Re-build	175	143					318
37	Lockers for charging and storage	20						20
	Mobile data devices	150	451				585	1,186
59	Airwave replacement units							0
	Server Replacement			700			700	1,400
	Business Systems Servers (Replacement Programme)						150	150
	DFU Server replacement			270				270
413	NEP Infrastructure/Sail Point/Internet Links	60	20					80
53	Wifi	92						92
	Digital Workplace audio visual		126					126
73	Digital Intelligence & Investigation		196					196
	Telephony			250				250
30	Backup Upgrade							0
	Nexus Upgrade	15	365					380
35	Command and Control Upgrade - Phase 2	1,552	1,001					2,553
	LPS - Community Safety - Prevention	30						30
	Life-X Deployment				1,100			1,100
	Emergency Service Netwrok		157	7,089			900	8,146
59	Body Worn Video (replacement costs)			933			1,000	1,933
1,862	**Total Information Technology and Communication**	**2,501**	**2,974**	**10,172**	**1,925**	**310**	**4,085**	**21,967**
5,258	**Total Capital Expenditure**	**4,740**	**11,104**	**18,616**	**9,534**	**4,207**	**7,526**	**55,727**

2020-21 Actuals £000	Description	2021-22 Revised Estimate £000	2022-23 Est £000	2023-24 Est £000	2024-25 Est £000	2025-26 Est £000	2026-27 Est £000
1,669	Total Building Works	1,159	5,310	6,777	5,168	2,100	2,100
1,727	Total Vehicles and Other Equipment	1,080	2,820	1,667	2,441	1,797	1,341
1,862	Total Information Technology and Communication	2,501	2,974	10,172	1,925	310	4,085
5,258	**Total Capital Expenditure**	**4,740**	**11,104**	**18,616**	**9,534**	**4,207**	**7,526**
	FUNDING:						
123	External sources	171	0	0	0	0	0
2,934	Own resources	3,747	5,865	5,540	3,636	2,997	2,831
2,201	Debt	822	5,239	13,076	5,898	1,210	4,695
5,258	**Total Funding**	**4,740**	**11,104**	**18,616**	**9,534**	**4,207**	**7,526**

APPENDIX B

Annual Minimum Revenue Provision Statement 2022/23

Where the Police and Crime Commissioner 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 Police and Crime Commissioner to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period 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 Police and Crime Commissioner to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

- For capital expenditure incurred before 1st April 2008, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure. *(Option 2)*

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3)*

- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24.

Based on the Police and Crime Commissioner's latest estimate of its capital financing requirement (CFR) on 31st March 2022, the budget for MRP has been set as follows:

	31.03.2022 Estimated CFR £m	**2022/23 Estimated MRP £**
Capital expenditure before 01.04.2008	7.24	0.29
Capital expenditure after 31.03.2008	12.62	1.15
Leases and Private Finance Initiative	8.18	0.95
Total General Fund	**28.04**	**2.39**

APPENDIX C

Draft Treasury Management Strategy Statement 2022/23

1. **Introduction**

1.1. Treasury management is the management of the Police and Crime Commissioner's cash flows, borrowing and investments, and the associated risks. The Police and Crime Commissioner has borrowed and 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 financial risk are therefore central to the Police and Crime Commissioner's prudent financial management.

1.2. Treasury risk management at the Police and Crime Commissioner is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Police and Crime Commissioner to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Police and Crime Commissioner Investments in November 2019 that requires the Police and Crime Commissioner to approve an investment strategy before the start of each financial year. This report fulfils the Police and Crime Commissioner's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.3. **Revised strategy:** In accordance with the WG Guidance, the Police and Crime Commissioner will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Police and Crime Commissioner's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

2. **External Context** (*example of data/commentary as at 17/12/21 – weekly 'Review and Preview' emails are also received from Arlingclose as well as relevant daily updates).*

2.1. **Economic background:** The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Police and Crime Commissioner's treasury management strategy for 2022/23.

2.2. The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

2.3. Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

2.4. UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

2.5. In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

2.6. Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

2.7. GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

2.8. The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

2.9. **Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.10. The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

2.11. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Police and Crime Commissioner's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Police and Crime Commissioner's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

2.12. **Interest rate forecast:** The Police and Crime Commissioner's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

2.13. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

2.14. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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

3. Local Context

3.1. On 31st March 2022, the Police and Crime Commissioner is expected to hold £8.88m of borrowing and £22.31m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.21 Actual £m	**31.3.22 Estimate £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
General Fund CFR	29.97	28.04	30.88	41.37	43.40	40.46	40.98
Less: Other debt liabilities *	(9.10)	(8.23)	(7.27)	(6.24)	(5.12)	(3.91)	(2.59)
Loans CFR	**20.87**	**19.81**	**23.61**	**35.13**	**38.28**	**36.55**	**38.39**
Less: External borrowing (long term)**	(9.38)	(8.88)	(8.38)	(7.88)	(7.38)	(6.88)	(6.38)
Less: External borrowing (short term)**	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internal borrowing	**11.49**	**10.93**	**15.23**	**27.25**	**30.90**	**29.67**	**32.01**
Less: Usable reserves	(32.96)	(33.44)	(27.63)	(25.14)	(23.47)	(22.44)	(21.88)
Plus: Working capital	(0.40)	0.20	0.20	0.20	0.20	0.20	0.20
New borrowing / (Investments)	**(21.87)**	**(22.31)**	**(12.20)**	**2.31**	**7.63**	**7.43**	**10.33**

* leases and PFI liabilities that form part of the Police and Crime Commissioner's total debt
** shows only loans to which the Police and Crime Commissioner is committed and excludes optional refinancing

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

3.3. The Police and Crime Commissioner has an increasing CFR due to the capital programme, but minimal investments and may therefore be required to borrow up to £20m (including existing borrowing) over the forecast period in order to maintain a positive level of liquidity (see also 3.5 below). However, if the capital programme is delayed this will also impact on the timing of our need to borrow.

3.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Police and Crime Commissioner's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Police and Crime Commissioner expects to comply with this recommendation during 2022/23.

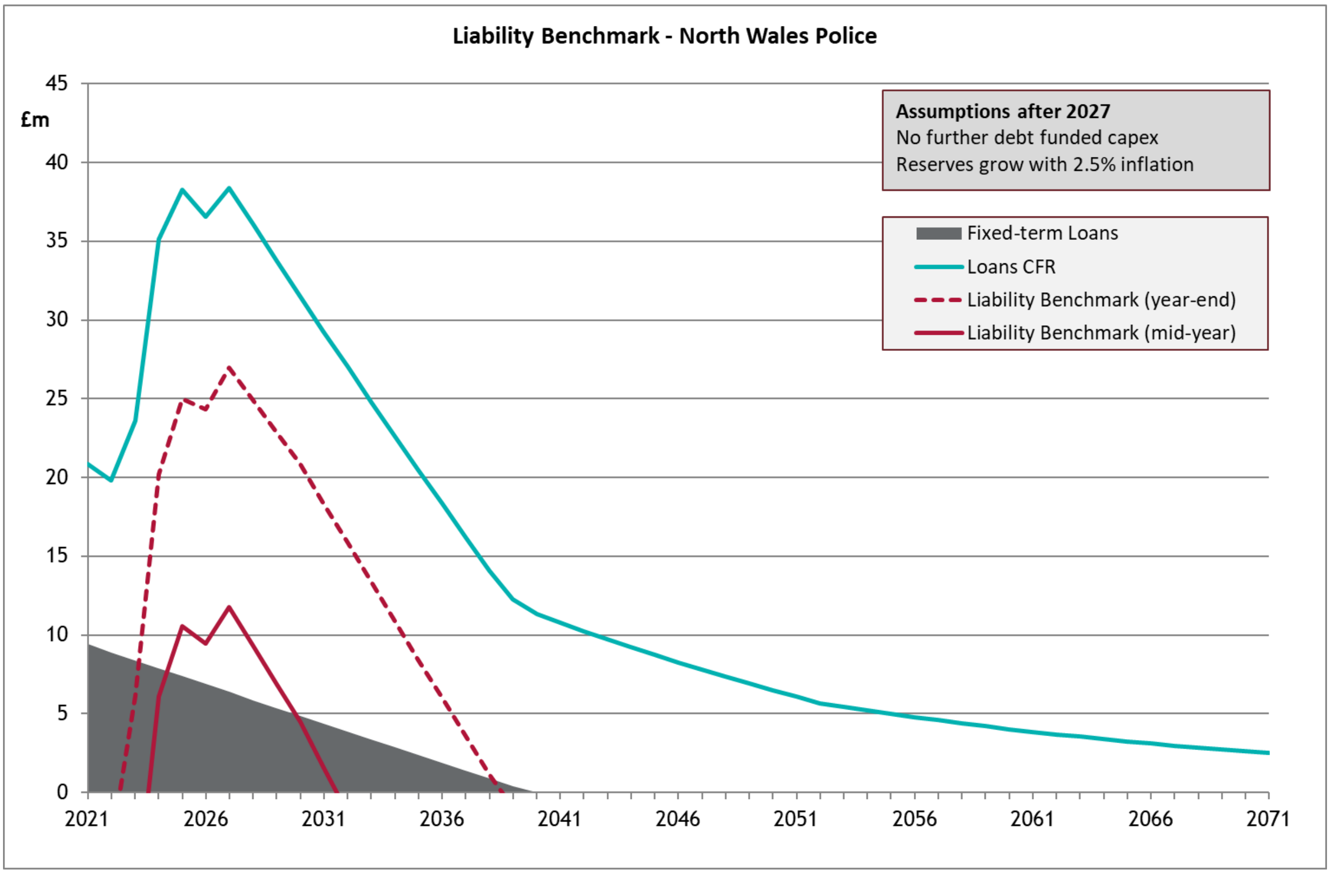
3.5. **Liability benchmark:** To compare the Police and Crime Commissioner's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of **£10m** at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.26 Forecast £m
New borrowing/(Investments)	**(21.87)**	**(22.31)**	**(12.20)**	**2.31**	**7.63**	**7.43**	**10.33**
Existing borrowing	9.38	8.88	8.38	7.88	7.38	6.88	6.38
Net borrowing requirement	**(12.49)**	**(13.43)**	**(3.82)**	**10.19**	**15.01**	**14.31**	**16.71**
Minimum Investment balance	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Liability benchmark (year-end)	**(2.49)**	**(3.43)**	**6.18**	**20.19**	**25.01**	**24.31**	**26.71**
Peak to Trough Cash flow	**(13.80)**	**(14.10)**	**(14.50)**	**(14.80)**	**(15.20)**	**(15.60)**	**(16.00)**
Liability benchmark (mid-year)	**(16.29)**	**(17.53)**	**(8.32)**	**5.39**	**9.81**	**8.71**	**10.71**

The liability benchmark **includes any existing level of borrowing*

3.6. Following on from the medium-term forecasts in table 2 above, the Police and Crime Commissioner plans to remain borrowed in line with its cash-flow forecast in order to minimise risk. The cash-flow forecast reflects the peaks and troughs over the financial year whereas the liability benchmark reflects a specific point in time.



4. Borrowing Strategy

4.1. The Police and Crime Commissioner currently holds £8.88 million of loans, a decrease of £0.50 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Police and Crime Commissioner does not expect to need to borrow in 2022/23. The Police and Crime Commissioner may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £24.61 million.

4.2. **Objectives:** The Police and Crime Commissioner's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Police and Crime Commissioner's long-term plans change is a secondary objective.

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

4.4. By doing so, the Police and Crime Commissioner is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and 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 Police and Crime Commissioner with this 'cost of carry' and breakeven analysis. Its output may determine whether the Police and Crime Commissioner borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. The Police and Crime Commissioner has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Police and Crime Commissioner does not intend to undertake this type of activity and therefore will retain its access to PWLB loans.

4.6. Alternatively, the Police and Crime Commissioner may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.7. In addition, the Police and Crime Commissioner may borrow short-term loans to cover unplanned cash flow shortages.

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Gwynedd Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Police and Crime Commissioner bond issues

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

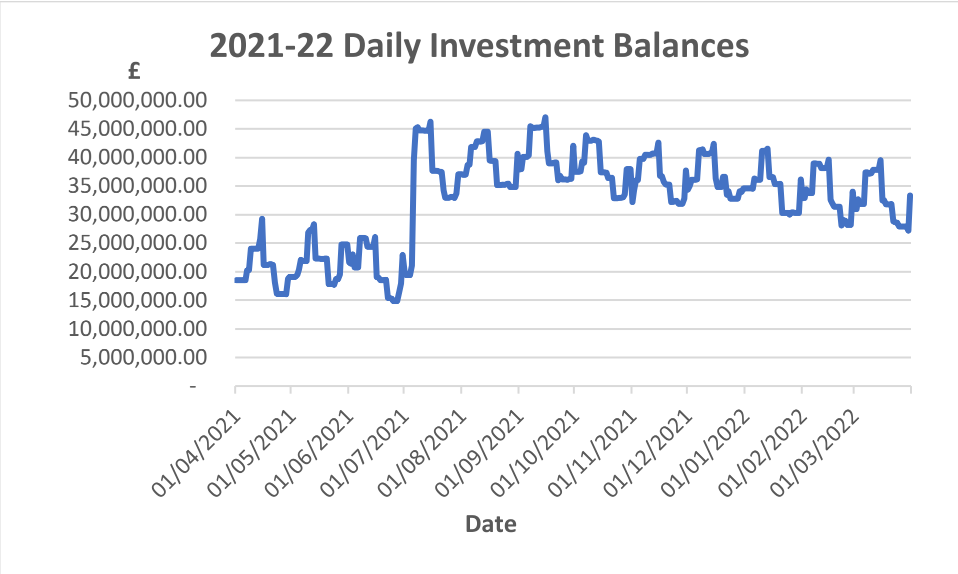
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.10. **Short-term and variable rate loans**: These loans leave the Police and Crime Commissioner exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

5. Treasury Investment Strategy

5.1. The Police and Crime Commissioner holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Police and Crime Commissioner's treasury investment balance has ranged between £14.87m and £47.04m, and similar levels are expected to be maintained in the forthcoming year.

Graph 1: Daily investment balance (2021-22)



5.2. **Objectives:** Both the CIPFA Code and the WG Guidance require the Police and Crime Commissioner to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Police and Crime Commissioner's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Police and Crime Commissioner will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.3. **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will 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. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. 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.

5.4. **Strategy:** Although there is increasing risk and very low returns from short-term unsecured bank investments, the Police and Crime Commissioner aims to continue to invest its surplus cash in short-term bank deposits during 2022/23. This is in alignment with the internal borrowing strategy of minimising the amounts invested (and associated risk) and maximising yield (by reducing interest payments).

5.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Police and Crime Commissioner's "business model" for managing them. The Police and Crime Commissioner aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. **Approved counterparties:** The Police and Crime Commissioner may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Counterparty limit	Sector limit
The UK Government	Unlimited	n/a
Local authorities & other government entities	£7m	Unlimited
HSBC[1*]	£10m	n/a
Secured investments *	£7m	Unlimited
Banks (unsecured) *	£4m	Unlimited
Building societies (unsecured) *	£4m	Unlimited
Registered providers (unsecured) *	£4m	£4m
Money market funds *	£4m	Unlimited
Strategic pooled funds*	£4m	£4m

1 These are the Commissioner's bankers and are currently rated AA- by Fitch credit rating agency
This table must be read in conjunction with the notes below.

5.7. *** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.8. **Government:** Loans to, and 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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.9. **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.10. **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.11. **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.12. **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Police and Crime Commissioner will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

5.14. **Operational bank accounts:** The Police and Crime Commissioner may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Police and Crime Commissioner maintaining operational continuity.

5.15. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Police and Crime Commissioner's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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.

5.16. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.17. **Other information on the security of investments**: The Police and Crime Commissioner 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, reports in the quality financial press and analysis and advice from the Police and Crime Commissioner's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.18. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Police and Crime Commissioner 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

Police and Crime Commissioner's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.19. **Investment limits**: The Police and Crime Commissioner's revenue reserves available to cover investment losses are forecast to be £33.44 million on 31st March 2022. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £10,000 in operational bank accounts count against the relevant investment limits.

5.20. Liquidity management: The Police and Crime Commissioner uses purpose-built cash flow forecasting methods to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Police and Crime Commissioner being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Police and Crime Commissioner's medium-term financial plan and cash flow forecast. The Police and Crime Commissioner will spread its liquid cash over approved providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Indicators

6.1. The Police and Crime Commissioner measures and manages its exposures to treasury management risks using the following indicators.

6.2. **Security:** The Police and Crime Commissioner has set a minimum credit rating of A- for investments.

Credit risk indicator	**Target**
Minimum credit rating for investments	A-

6.3. **Liquidity:** The Police and Crime Commissioner 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 twelve month period. For practical purposes a lower operational limit of £7.5 million for a maximum of 14 days will be set to avoid unnecessary short-term borrowing

Liquidity risk indicator	**Limit**
Minimum cash available within 12 months	£10m
Lower limit for a maximum of 14 days	£7.5m

6.4. **Interest rate exposures**: This indicator is set to control the Police and Crime Commissioner's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£50,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. However normal practice is to borrow and/or invest at fixed rates which removes any interest rate exposure risk.

6.5. **Maturity structure of borrowing:** This indicator is set to control the Police and Crime Commissioner's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**

Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	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.

6.6. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Police and Crime Commissioner'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:

Price risk indicator	**2022/23**	**2023/24**	**2024/25**
Limit on principal invested beyond year end	£5m	£3m	£1m

7. Related Matters

7.1. The CIPFA Code requires the Police and Crime Commissioner to include the following in its treasury management strategy.

7.2. **Financial derivatives:** In the absence of any explicit legal power to do so, the Police and Crime Commissioner 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.

7.3. **Markets in Financial Instruments Directive**: The Police and Crime Commissioner has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Police and Crime Commissioner's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

7.4. **Government Guidance:** Further matters required by the WG Guidance are included in Appendix C.

8. Financial Implications

8.1. The budget for investment income in 2022/23 is £0.10 million, based on an average investment portfolio of £10 million at an interest rate of 0.01%. The budget for debt interest paid in 2022/23 is £0.12million, based on committed fixed rate long term loans and an estimate to cover potential short term borrowing. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9. Other Options Considered

9.1. The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted the Joint Audit Committee, 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

<u>Arlingclose Economic & Interest Rate Forecast – December 2021</u>

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Police and Crime Commissioner's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Police and Crime Commissioner's investments contribute to its service delivery objectives and supports effective treasury management activities,

Climate change: The Police and Crime Commissioner's investment decisions consider long-term climate risks to support a low carbon economy.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local Police and Crime Commissioner,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Police and Crime Commissioner, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Police and Crime Commissioner defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the Police and Crime Commissioner temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another Police and Crime Commissioner. The Police and Crime Commissioner does not provide loans of this nature.

The Police and Crime Commissioner uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Police and Crime Commissioner has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. The Police and Crime Commissioner confirms that it doesn't have any non-specified investments.

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. The Police and Crime Commissioner does not hold any non-financial investments.

Investment advisers: The Police and Crime Commissioner has appointed Arlingclose Limited as treasury management advisers. The quality of this service is managed by regular strategy meetings, review of data provided and professional judgement.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

Capacity and skills: The Police and Crime Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Training is provided to all staff involved in making capital expenditure, borrowing and investment decisions.

Corporate governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Police and Crime Commissioner and Joint Audit Committee (JAC). End of year and half yearly reports on treasury management activity are presented to SEB and JAC. The JAC is responsible for scrutinising treasury management decisions.