



Treasury Management Report to Period 6 2018/19

Report of the Director of Finance

Introduction

1. In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.
2. This report will review the treasury management activities for Staffordshire Police only; a separate report will follow for the Staffordshire Fire and Rescue Service. Therefore when reference is made to the Police, Fire and Crime Commissioner Staffordshire (PFCC) as part of this report, this represents Staffordshire Police only.

Purpose of Report

3. To review the treasury management activities for the half-year ended 30 September 2018 including the Prudential Indicators for treasury management and the PFCC's approved lending list.

Recommendations

4. That the treasury management activities for the half-year ended 30 September 2018 are reviewed, and the Prudential Indicators for treasury management shown at **Appendix 2** be noted.
5. That the capital strategy and minimum revenue provision policy at Appendix 3 be noted.
6. That the decision to undertake long term borrowing continues to be delegated to the Director of Finance at the PFCC, and reported retrospectively to the Strategic Governance Board (SGB) and the Ethics, Transparency and Audit Panel (ETAP), as per the 2018/19 Treasury Management Strategy (**paragraphs 28-36**).

Revised CIPFA Code and MHCLG Guidance

7. This report details the various activities within the treasury management operation for the six months ended 30 September 2018 and fulfils one of the reporting requirements of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' ('the CIPFA Code').
8. In late December 2017, CIPFA published both its revised *Treasury Management in the Public Services Code of Practice* and its revised *Prudential Code for Capital Finance in Local Authorities*. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) published revised *Guidance on Local Government Investments* and *Statutory Guidance on Minimum Revenue Provision* in February 2018.
9. As part of the Treasury Management Strategy for 2018/19, the Director of Finance recommended that amendments required by the new CIPFA Codes and MHCLG Guidance would take place in later reports, now in place for the 2019/20 financial year.
10. In addition CIPFA are yet to publish their Treasury Management in the Public Services Guidance Notes for Local Authorities including Police and Fire Bodies, originally scheduled for July 2018. The guidance notes would provide more direction for local authorities when setting treasury management indicators.
11. According to the revised CIPFA Code and MHCLG Guidance, the PFCC should produce the following for the 2019/20 financial year:
 - a new Capital Strategy report
 - a revised Treasury Management Strategy report
 - a Minimum Revenue Provision (MRP) statementA draft of a single capital strategy and Minimum Revenue Provision policy is included as Appendix 4 to this report.

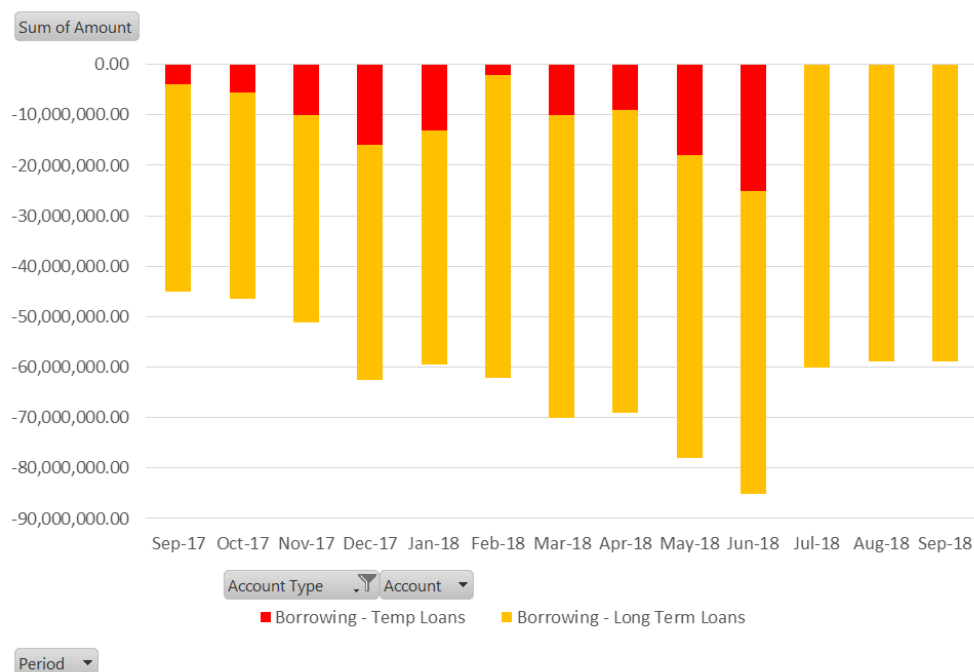
Borrowing strategy update

12. The weighted average rate of interest for all the long-term loans held at 30 September 2018 is shown in the table below. The rate has decreased (improved) from 2017/18 as the PFCC repaid £1.25m in PWLB loans that matured in August 2018, and these loans had originally been taken out at higher rates than the average for the portfolio.

	2017/18	2018/19 to 30/09/18
Weighted average rate of interest	3.33%	3.23%

13. A graph illustrating the maturity profile of the long-term loan debt is provided at **Appendix 1**.

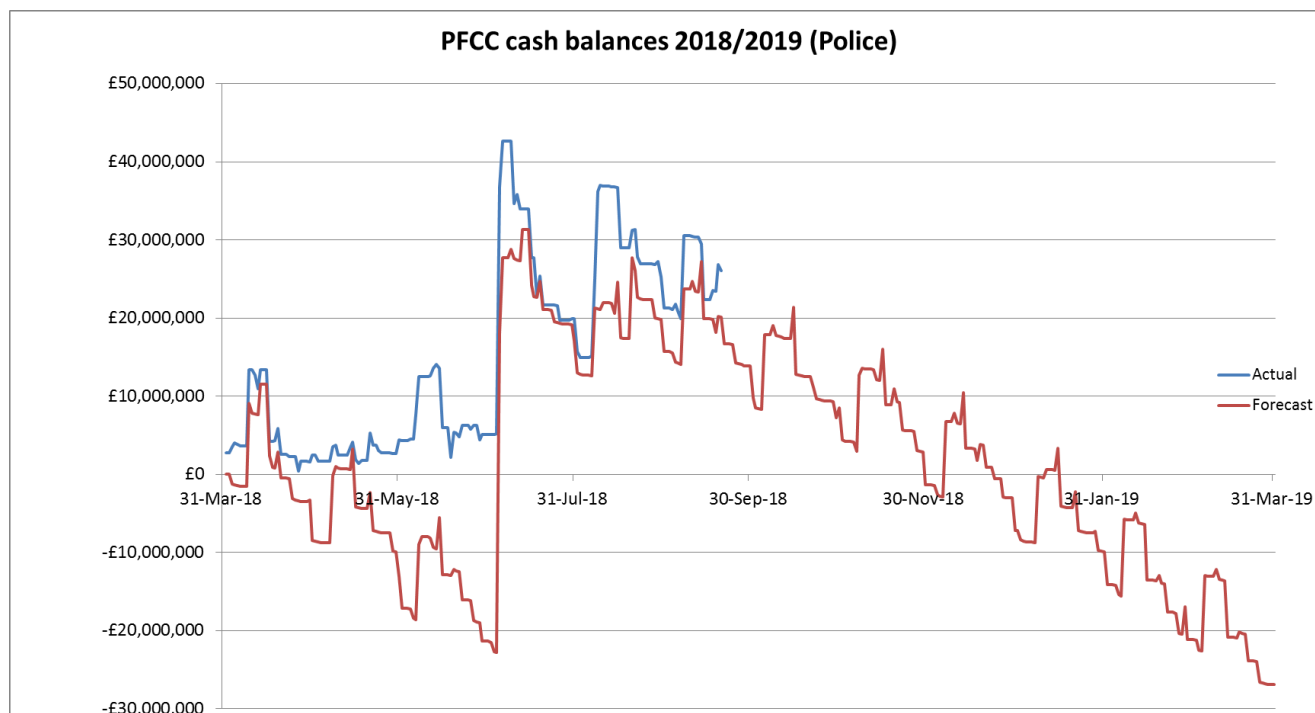
Table 1 – Borrowing over the last 12 months



- 14.
15. The Treasury Management Strategy for 2018/19 outlined the long-term borrowing strategy for the year; this was as follows:
- ‘A borrowing strategy, to maximise the use of cash as far as is practical with the ability to raise long-term loans following consultation with the Director of Finance.’
16. In accordance with this, cash has continued to be used in lieu of borrowing and no new long-term loans were raised in the first half of the financial year.

17. The implementation of this strategy has relied on two main factors; the first is the Low Bank Rate set by the MPC.
- In August 2018, the MPC raised Bank Rate by 0.25% to 0.75%, the second time it had raised rates in the past year. The MPC felt the rise was justified in the face of rising inflation, low unemployment and stronger global economic growth. However the MPC has maintained expectations of a slow rise in interest rates over their forecast horizon, due to the ongoing challenges to the UK economy.
 - In terms of the future, the County Council provide a Bank Rate forecast, based on advice from their treasury advisor. The Council expect Bank Rate to rise twice in 2019 although they maintain significant downside risks to the interest rate forecast, as the UK finds its way through the EU negotiations and the initial post EU period.
 - Although interest rates have risen, they still remain just above historic lows. Low rates means that the strategy of using cash is still important, as it represents a cheap way of financing the capital programme. Overall, the short-term interest rate environment now and the forecast continue to support the borrowing strategy adopted in 2018/19.
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18. The second element supporting the current strategy is; cash balances being sufficient to meet the PFCC's day to day requirements.
- When cash is sufficient to meet day to day requirements this means that the working capital position is positive or equal, meaning that cash coming in is sufficient to meet everyday requirements.
 - Since the beginning of the financial year actual cash balances had only been sufficient to allow day to day cash management when supplemented by short-term loans. The cash position was sustained by short-term loans until the receipt of the pensions grant in early July. A considerable share of the pensions grant was then used to repay the short-term loans.
 - Due to pensions grant funding arrangements and historic underclaims on pensions this has not been the case since 2016/17 and represents a real improvement in cash position as a result of better balance sheet management.

19. The following graph shows total actual cash balances for the first half of the year (in blue) against the forecast for the full year (red).
Graph 1 – Cash balances financial year to date and forecast



20. Although cash balances have started to decline from the high in July, the PFCC have not had to resume short-term borrowing yet as cash balances have been supported by £12m in capital receipts received in the year. However, looking forward to the second half of the year, forecast cash balances indicate the PFCC may need to undertake further forms of external borrowing for the rest of the year.

Investment Strategy Update

21. The Annual Investment Strategy (AIS) sets out those parties the PFCC will lend its money to. The general criteria for determining the institutions that should be included on the counterparty list are set out in detail most recently within the Treasury Management Strategy for 2018/19.
22. The 2018/19 Treasury Management Strategy set out the requirements of Government regulations and the CIPFA Code. Both of these documents set out two prime risk issues:
- The security of capital.
 - The liquidity of investments.
23. In summary, investments are currently being placed with:
- Regulation Investments (no financial limit):
 - i) UK Government Debt Management Account Deposit Facility (DMADF) (6 months is the maximum period permitted).
 - ii) Local Authorities / Parish Councils (12 months).
 - 3 “AAA” rated Money Market Fund’s (MMF’s) – Up to £1.5m (Instant Access).
 - Lloyds Bank as banking services provider - up to £0.5m (Instant Access).

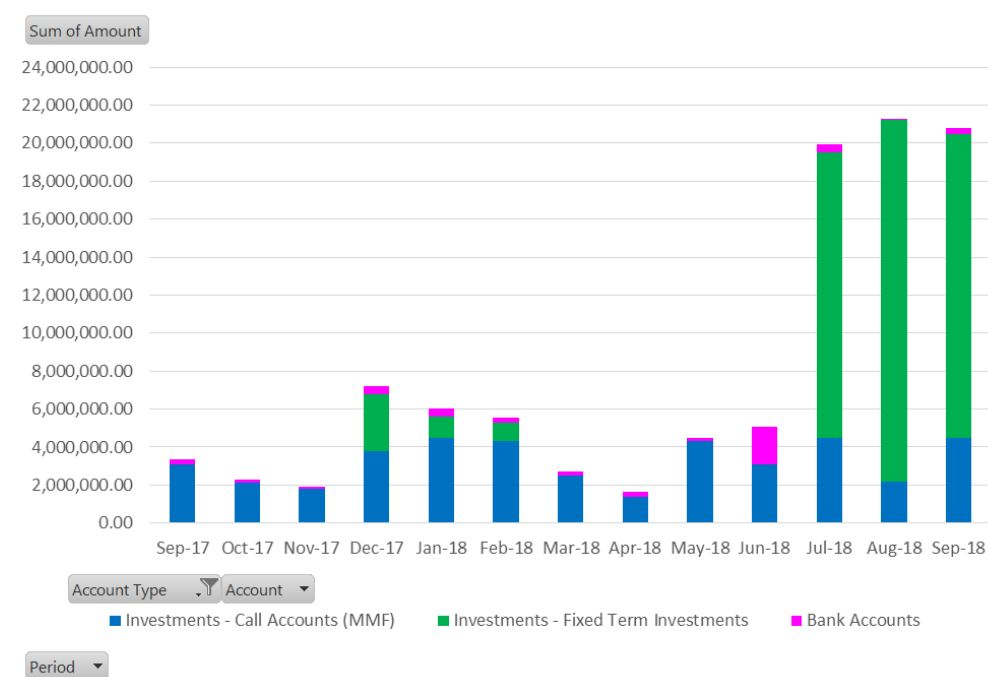
Short-term money-market transactions

24. Approved investments at 30 September 2018 stood at £20.792m (£3.337m at 30 September 2017). They can be analysed by counterparty, amount, term and credit rating as follows:

Regulation Investments	£m	Term	Credit rating
DMADF	1.000	1 month	Unrated*
Birmingham City Council	5.000	1 month	Unrated*
Central Bedfordshire Council	4.000	1 month	Unrated*
Cheltenham Borough Council	3.000	1 month	Unrated*
Cherwell District Council	3.000	1 month	Unrated*
Banks and building societies			
Lloyds Bank Plc	0.292	Instant Access	A+
Money Market Funds			
State Street	1.500	Instant Access	AAA
Morgan Stanley	1.500	Instant Access	AAA
Standard Life	1.500	Instant Access	AAA
TOTAL	20.792		

**Use of these investments is as set out in Government Regulations*

Table 2 – Investments over the last 12 months



25. Investment returns are relatively low which reflects a cautious approach and low interest rates generally. The average return on investments for the period compared to the benchmark of 7 day LIBID is shown in the following table.

	2017/18	2018/19 to 30/09/18
Average return on investments	0.20%	0.50%
Average 7 day LIBID *	0.21%	0.43%

** 7 Day LIBID is the average rate of interest for a period of time at which banks are prepared to lend to each other for up to a week.*

26. The average return on investment was higher than in 2017/18 and the benchmark in 2018/19 so far; this is a reflection of the two rate rises over the past year and that the PFCC has had higher cash balances due to capital receipts received. This allowed the PFCC to invest in very short term local authority deposits and benefit from the rate rises instantly. Remaining balances invested in MMF's earned a 'market rate' but took longer for rate rises to feed in. As discussed in **paragraph 29**, the higher cash balances are not expected to be maintained throughout the year.

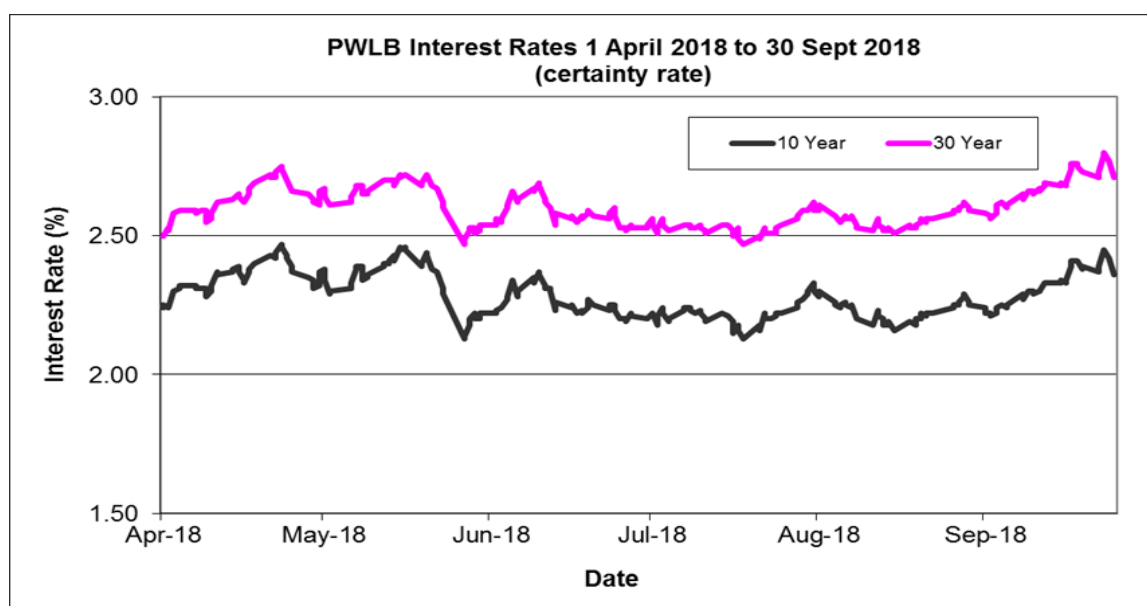
Forecast to end of year

27. The following table is an update of the information included at point 7.3 of the 2018/19 Treasury Management Strategy. The table shows that forecast debt levels will increase rapidly to support the current capital programme. This means that the gap being funded from cash will grow to unsustainable levels in 2018/19 and beyond, if no long-term external borrowing is taken.

	2017/18 (actual) £m	2018/19 (estimate) £m	2019/20 (estimate) £m	2020/21 (estimate) £m
Forecast Gross Debt	66	83	100	104
Forecast Loans Position	(60)	(59)	(57)	(56)
Gap Funded from Cash	6	24	43	48
Cash Available	6	14	14	14
Borrowing Required	0	10	29	34
In Year Borrowing Required		10	19	5

28. The 2018/19 Treasury Management Strategy was one that aimed to balance the liquidity needs of day to day cash management with the low risk approach that is offered by using cash in lieu of long-term borrowing. The strategy was clear though, that with the forecasts for capital expenditure and thus increasing debt, cash balances would not be sufficient throughout the year and the only option would be to raise some new loans, either short-term or long-term.

29. As reported earlier, short-term loans were used extensively at the start of the 2018/19 financial year to sustain cash balances. However the table at paragraph 27 indicates that the policy of using cash has been maximised and it is appropriate to undertake further long-term borrowing.
30. By raising new long-term loans it is important to understand that the entire funding gap does not need to be closed. A gap should be retained that still maximises the use of cash, as;
- using cash reduces security risk as investment balances are lower
 - there is less exposure to variable interest rate changes
 - the low interest rate environment allows a portion of the capital programme to be funded at low cost through the use of cash.
31. The traditional source of borrowing for the PFCC has been the PWLB (Public Works Loan Board) whose loan interest rates reflect changes in Gilt yields in the UK Government bond market. The following chart shows two typical loan periods where rates have been adjusted to reflect the “certainty-rate” reduction of 0.20% that is available to all local authorities who register with the Government.



32. Gilt yields are very sensitive to the risk appetite of international investors and currently yields are still relatively low reflecting the uncertain global financial environment. Although the UK is still perceived as a safe-haven for domestic and international investors, gilt yields have increased from the end of August due to concerns over Brexit. This has been reflected in an upturn in PWLB interest rates. At the time of writing in October, gilt yields have increased by a further 6% meaning PWLB rates will have also increased.
33. Short-term borrowing will continue to be utilised where deemed appropriate but based on the forecast level of debt going forward, it is clear that the PFCC will have to undertake significant extra borrowing over the next few years.
34. The Director of Finance has had initial discussions with Council treasury staff to undertake long term borrowing in 2018/19; this should reduce the need to undertake additional short-term borrowing this year.

35. Due to markets moving rapidly it is usual to consider the exact nature of borrowing at the time it is taken. For this and the reasons given above, it is proposed that:

the decision to undertake long term borrowing continues to be delegated to the Director of Finance at the PFCC, and reported retrospectively to the Strategic Governance Board (SGB) and the Ethics, Transparency and Audit Panel (ETAP), as per the 2018/19 Treasury Management Strategy.

Compliance with Treasury Limits

36. It can be certified that for the half-year ended 30 September 2018:
- (i) All transactions were undertaken by authorised officers and within the limits approved by the PFCC.
 - (ii) All investments were to counterparties on the approved lending list and fully met the requirements of the relevant legislation.
 - (iii) The PFCC operated within the treasury limits and Prudential Indicators set out in County Council Treasury Management Practices and the Treasury Management Strategy for 2018/19. The half-year position against the Prudential Indicators is shown in **Appendix 2**.

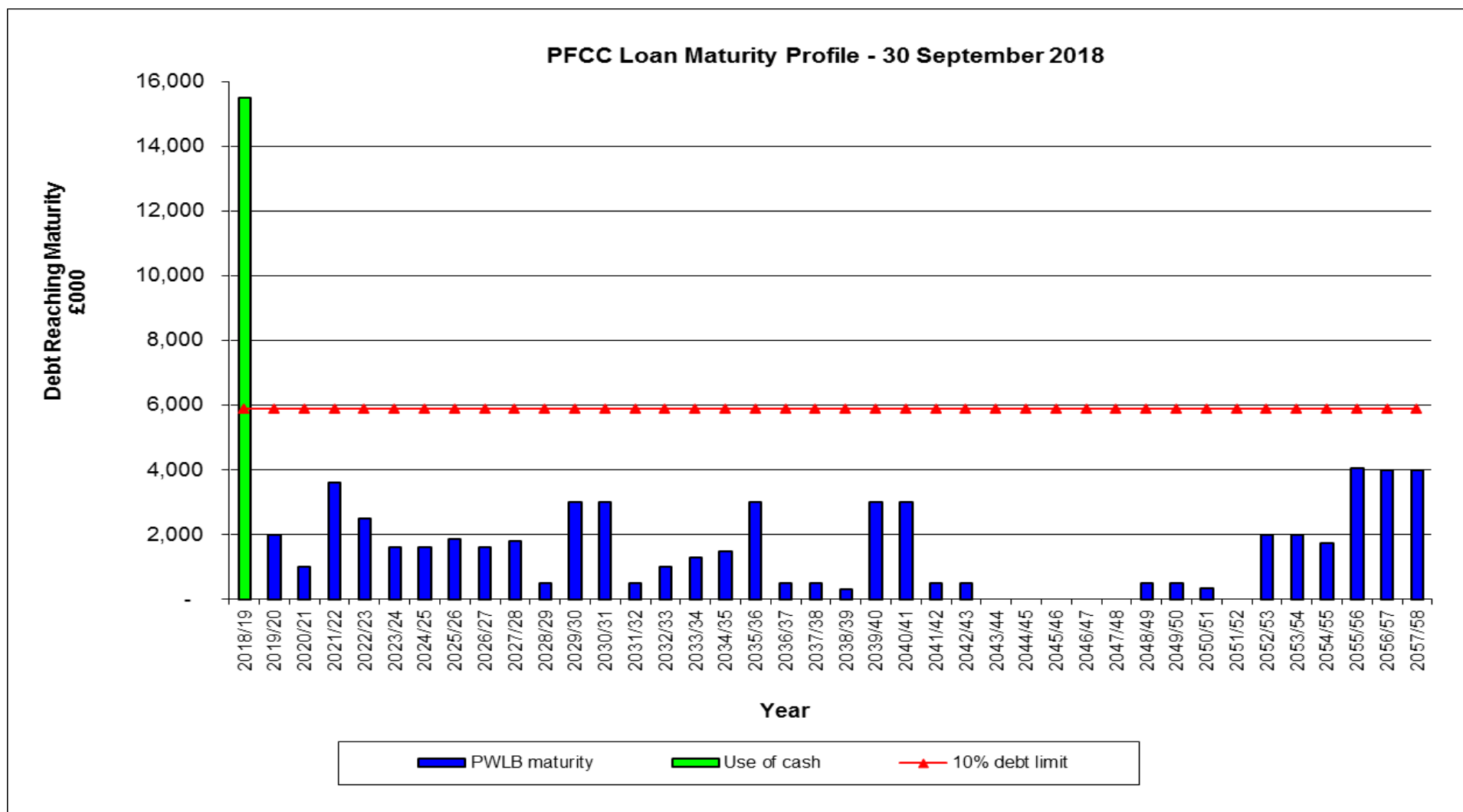
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Director of Finance

Contact Name

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Background Documents

- 1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2011)
- 2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2011)
- 3. Local Authorities (Capital Finance and Accounting) Regulations 2003
- 4. Local Government Investments - Guidance under Section 15(1) (a) of the Local Government Act 2003 issued by the Secretary of State (2010)



October 2018

Prudential Indicators for Treasury Management

Indicator	Original 2018/19	Position at 30/09/18
1. CIPFA Code of Practice for Treasury Management in the Public Services	The PFCC has adopted the CIPFA Code of Practice on Treasury Management.	
1. <i>This indicator identifies whether the PFCC has adopted CIPFA's Code of Practice for Treasury Management in the Public Services.</i>		
2. External Debt		
a. Authorised Limit	£79.400m	£58.800m
b. Operational Boundary	£73.700m	£58.800m
c. External Loans	£58.800m	£58.800m
2. <i>The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. The Operational Boundary represents the Director of Finance's estimate of the day to day limit for treasury management activity based on the most likely i.e. prudent but not worst case scenario.</i>		
3. Interest Rate Exposures		
a. Upper Limit (Fixed)	£69.000m	£58.800m
b. Upper Limit (Variable)	(£30.000m)	(£20.792m)
3. <i>Upper limits of fixed and variable borrowing and investments are required to be set. This limits exposure to both fixed and variable interest rate movements as part of the overall risk management strategy for treasury management activities. Negative figures are shown in brackets; these relate to investments at a variable rate which are not offset by variable borrowings.</i>		
4. Maturity Structure of Borrowing	Upper Limit	Lower Limit
Under 12 months	10%	0%
12 months and within 24 months	10%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	25%
4. <i>This indicator identifies the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time.</i> <i>As a result no more than 10% of fixed rate loans are planned to mature in any one financial year.</i>		
5. Upper limit for total principal sums invested for over 364 days (per maturity date)	nil	nil
5. <i>Any investments made for over 364 days will be in accordance with the PFCC's limits on non-specified investments.</i>		
6. Borrowing in advance of need (maximum debt)	100%	100%
6. <i>This indicator sets the maximum loans as a proportion of the borrowing need. In 2018/19 the strategy is not to borrow in advance, hence the indicator is set at 100%.</i>		

General Economic, Statutory and Sector Update

1. In June 2018, the EU Withdrawal Bill narrowly made it through Parliament after a number of defeats. The new Act would repeal the 1972 European Communities Act, which took the UK into Europe, and also allow EU law to be transferred into UK law. With only 6 months to go until Article 50 expires on 29 March 2019, the extended period of economic uncertainty continues, with the UK and the EU seemingly no closer to agreeing on a financial settlement and on their future trading relationship.
2. The FTSE 100 reached record highs of over 7,800 at the start of the financial year, as markets perceived global trade conflicts as neither pressing or as threatening as previously thought. However these concerns returned as the FTSE 100 finished the half year at around 7,500 (at the time of writing in October, the FTSE has fallen further, trading close to 7,000). UK gilt yields also showed volatility during the period; a sharp drop in May was followed by an increase of about 30% towards the end of September, a result of Brexit concerns and expectations for US interest rate rises.
3. The Bank of England's Monetary Policy Committee (MPC) deferred raising interest rates until August 2018, despite earlier statements that monetary policy would need to be tightened in order to bring inflation to target. It then raised rates to 0.75% indicating any further rate rises would be gradual and to a limited extent. Some commentators believe Brexit to be a greater challenge to the UK economy than inflation and that an MPC policy of cutting Bank Rate from a higher level would be more effective if some of the Brexit risks transpire.
4. European markets retreated in June 2018, affected by fears over the rise of populist parties with Eurosceptic policies following the political crisis in Italy. However the European Central Bank (ECB) gave an upbeat assessment of economic conditions in September and confirmed its intention to end quantitative easing by the end of the year.
5. The US economy continued to expand over the period and the Federal Reserve (the Fed) maintained its policy of moving from a quantitative easing to a tightening position. The Fed raised rates in June and in September by 0.25% to the current 2%-2.25%. Improvements to the US economy were tempered by an escalating trade war with China, initiated by tariffs announced by the Trump administration. The damage to China and other Asian economies in the supply chain, risk contributing to a slowdown in global economic growth in 2019.

MiFID II

6. During the first half of the financial year, the PFCC remained as a retail client under the second Markets in Financial Instruments Directive (MiFID II). Due to having low cash balances, it is uncertain whether the PFCC will be able to meet or sustain the criteria to opt up to be a professional client, in particular the criteria to have investment balances over £10 million.

7. For retail clients, financial firms would need to provide protections to ensure suitability of investment products and evidence that all risks and product features have been fully explained. These enhanced protections mean that the PFCC will be potentially restricted in accessing certain products including some MMFs, pooled funds, treasury bills and treasury advice.
8. As a result of MiFID II, the Federated MMF provider declared they would be unable to service retail clients. The PFCC replaced their Federated MMF with a new MMF account with State Street in May 2018, as previously agreed to in the 2018/19 AIS.
9. As per the 2018/19 Treasury Management Strategy, the application and amendment of the AIS, including opting up to professional client status, has been delegated to the PFCC Director of Finance. Any action taken will be reported to ETAP.

Money Markets Funds (MMF) reform

10. New EU regulations for MMFs were approved in July 2017 meaning existing funds will need to be compliant by January 2019. As part of the regulations, it is expected that most short term MMFs will convert from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure.
11. The assets of LVNAV MMFs are predominantly marked to market meaning the dealing NAV (unit price) may fluctuate. However the new regulations confirm they will be allowed to maintain a constant dealing NAV provided they meet strict new criteria and minimum liquidity requirements. Public debt CNAV MMFs will still be available where 99.5% of assets are invested in government debt instruments.
12. A number of MMF providers have started to inform clients over their plans to become compliant to the new regulations. The Council's treasury staff will monitor individual MMFs and update the PFCC with any developments. The PFCC will continue to consider MMFs for investment in accordance with the criteria laid out in the 2018/19 Treasury Management Strategy. The MMF reforms should not lead to any operational change for the PFCC.

Bank Ring-fencing

13. Ring-fencing legislation adopted by UK financial regulators requires that the larger UK banks separate their core retail banking activity from the rest of their business, ahead of the statutory deadline of 1 January 2019. The aim is to protect retail banking activity from unrelated risks elsewhere in the banking group, as became evident after the global financial crisis.
14. The PFCC's banker Lloyds has created Lloyds Bank Corporate Markets as a new investment bank to hold its relatively small investment banking operation. This means 97% of the bank's assets are expected to remain within the ring-fence bank. The PFCC's business with the bank should take place within the ring-fence and not form part of their investment banking operations.



Capital Strategy and Minimum Revenue Provision Policy

The Staffordshire Commissioner

1. INTRODUCTION

- 1.1. The Capital Strategy forms a key part of the Commissioner's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over a medium term (five year) planning horizon.
- 1.2. The Strategy sets the framework for all aspects of the Commissioner's Police capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy has direct links to the other Commissioner Management Plans such as the Asset Management Plan and IT strategy and forms a key part of the Commissioner's Medium Term Financial Strategy (MTFS).
- 1.3. There are three main areas of spend which feature within the Capital Programme; Estates and Facilities, Transport and Information Systems and Technology. Business Services interlinks these areas, and develops processes to ensure procurement and value for money is enveloped in each area. There are independent strategies in place which demonstrate the requirements from each of these individual areas, and how they are linked into the procurement strategy, and how they relate to the Force's and Commissioner's policing plans.

2. OBJECTIVES

- 2.1. The key aims of the Capital Strategy are to:
 - provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the pledges and the Commissioner's Vision, Aims and Priorities;
 - set out how the Commissioner identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Strategic Outline Cases (SOC) and Full Business Cases (FBC);
 - consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
 - identify the resources available for capital investment over the MTFS planning period;
 - ensure the strategy has an overall balance of risk on a range on investments over timespan, type of investment and rate of return, and,
 - establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.
 - deliver projects that focus on delivering the long term benefits to policing in Staffordshire listed below:



3. GOVERNANCE OF THE CAPITAL PROGRAMME

3.1. Governance processes will be put in place and adhered to, following standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the MTFS. These include

- The Strategic Governance Board (SGB) which is ultimately responsible for approving the capital strategy for investment and the Capital Programme, for approving changes to the programme within financial regulations and for the approval of Final Business Cases (FBC);
- The Ethics and Transparency Panel which is responsible for scrutiny of the MTFS documents and the Capital budget monitoring reports and can make recommendations to the Strategic Governance Board (SGB).

3.2. The Commissioner will require the Chief Constable to put in place mechanisms which will seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Commissioner's over-arching aims. These include:

- The Force Strategy Board which has overall responsibility for the management and monitoring of the capital programme and ensuring the impact on service delivery is well-managed and ensures value for money;
- Corporate Resourcing and Planning Board which has overall responsibility for the financial management, funding and monitoring of the capital programme, approving virements within financial regulations and for sign off of Outline Business Cases (OBC) after legal and financial approval.
- Investment Board which has responsibility for ensuring the coherence, value for money and programme planning of the capital programme, agreeing virements within financial regulations and for providing information to the Force Strategy Board on service delivery impact.
- Special interest Boards such as the Estates Board have the responsibility for overseeing and approving business cases for investments prior to sign off by Corporate Resourcing and Planning Board;

- Specific Project boards with wide ranging membership.

3.3. New programmes of expenditure will be appraised and grant allocation programmes follow a clearly defined gateway process.

- For new projects and programmes an Outline Business Cases (OBC) will be submitted that needs to include capital investment, repayment mechanisms, revenue impacts and full lifetime costings. These will be scored against an agreed weighting and appropriate recommendations made to CRPB.
- Subject to the outline proposal being approved a detailed Full Business Case (FBC) be (which will be appropriate to the amount and/or complexity) submitted and appraised prior to being appended to a report to be approved by the PCC.
- Monthly reports will continue to be submitted to the Force Strategy Board that identify changes to this programme to reflect;
 - New resource allocations
 - Slippage in programme delivery
 - Programmes reduced or removed
 - Virements between schemes and programmes to maximise delivery.
 - Revisions to spend profile and funding to ensure ongoing revenue costs are minimised.

3.4. Depending on the size of the project a programme board may be set up with key stakeholders to manage and take the project forward, and identify any risks which could affect the project or the organisation. Any risks deemed high for the organisation as a whole will be taken to the Risk Management Group.

3.5. Regular reports will also be provided to Ethics and Transparency Panel on the proposals and returns from the investments made.

4. CAPITAL PRIORITIES

- 4.1. When the Police and Crime Commissioner came into office he made a pledge that the Staffordshire Force would become the most technologically advanced local force in the UK.
- 4.2. Underlying the capital strategy is the recognition that the financial resources available to meet the Police and Crime Commissioner's five priorities as laid out in his Safer, Fairer, and United Communities Strategy are constrained in the current economic and political climate. Therefore the Police and Crime Commissioner must seek ways in which investment decisions can be no less than self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.
- 4.3. The AMP identifies significant backlog maintenance issues across the Commissioners property portfolio. It is anticipated that this can be mitigated through the strategic accommodation strategy. The AMP identifies the necessary investment needed to bring the remaining asset stock up to current standards which would require a level of investment that is currently unaffordable. Given the Commissioners priority is to dispose of any surplus assets then the limited capital resources available via grant, capital receipts and private sector are prioritised to maximise outputs with minimal ongoing future revenue costs;
- 4.4. The bringing together of blue light services under a single governance route to the Commissioner provides opportunities to co-locate and share assets to the good of the community and the services that serve those communities. Every opportunity to share will be explored as a principle before single purchase of assets.
- 4.5. Subject to full or partial cost recovery business cases the Commissioner will:-
- Measure proposed investment against the five priorities in his Safer, Fairer, United Communities Strategy and invest accordingly;
 - Reduce the backlog maintenance liability by rationalising office accommodation and other operational estate. The rationalisation will be in the form of moving out of leased / rented accommodation and sales of surplus assets;
 - Invest in energy saving initiatives which reduce future running costs and reduce CO2 emissions;
 - Invest in opportunities to provide a future income stream to support revenue through the optimisation of resources;
 - Invest in ICT hardware and software on a case by case basis. The primary focus being channel shift into improved technologies on spend to save basis;
 - Support investment in joint virtual or physical delivery platforms which support data sharing, improved joint working and sharing of knowledge

particularly where it is possible to secure significant third party contributions or grant funding.

5. FUNDING APPROACH

5.1. The Commissioner's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

5.2. There are a range of potential funding sources which can be generated locally either by the Commissioner itself or in partnership with others. The Commissioner continues to seek new levels of private sector investment to match against its capital programme, this may be additional capital receipts from land sales, developer agreements, joint funding opportunities across the private sector or Regional funds on a wide range of projects.

5.3. The strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP. Whilst at the same time ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcomes of the strategy.

5.4. The main sources of capital funding are summarised below:

5.5. Central government and Regional government

- Basic Formula Grant allocations – Policing bodies are anticipating that formula grants for capital projects will reduce to negligible levels by the end of the current MTFS period. This necessitates a different approach to funding.
- Specific Grant allocations – Grants are allocated in relation to specific programmes or projects and the Commissioner would seek to maximise such allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives and agendas but address priority needs in policing in Staffordshire.
- The Commissioner will continue to bid for future resource allocations using innovative service delivery mechanisms if necessary. For example through the Police Transformation Fund, Enterprise Zones, Regional Growth Fund, Single Growth Fund etc.

5.6. Internal Balances

- Interest rates, over recent years, have remained low; therefore external borrowing has been prudent but with the recent potential increase of interest rates Internal borrowing could continue if the force received surplus capital receipts) to help support the programme, this can avoid further interest costs impacting the revenue budget to support the capital programme, however there are limitations to the amount of internal funds that can be used, and this is monitored on a regular basis by our Treasury management advisors (Staffordshire County Council) who will propose alternative action when necessary.
- External and Internal borrowing is only used once all other sources of funding has been utilised (excluding excess capital receipts which are used to fund future shorter life projects). Therefore borrowing tends to be used mainly for property and estates projects. However, in recent years, due to lack of other funds, internal borrowing has been required to fund some ISIT projects' spend.

5.7. Reserves

- Any funding which has been allocated in a specific year, but is not required until future years will be carried forward in earmarked capital reserves. These reserves will vary from year to year, depending on the level of funding available and the timing of their respective projects.
- Reserves can be created from most sources of funding; DRF, Grants, receipts, and insurance receipts/reserves.
- Working with other authorities/partners there may be opportunities in securing other additional funding.

5.8. Private Sector

- Contributions will continue to be sought from developers towards the provision of public or private assets or facilities. In some cases contributions are to mitigate the impact of their development on communities and often referred to as Section 106. These contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects.

- The Commissioner will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Commissioner. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs, included within the new flexibilities.
- The Commissioner will also continue to work with the Connected Staffordshire Commission, CCGs, Health providers, Local Authorities, Higher Education providers and other public agencies to consider projects that are to the mutual benefit of all parties. The Commissioner is committed to working with partners in the development of policing in Staffordshire and its services.
- Various mechanisms provide opportunities to enhance the Commissioner's investment potential with support and contributions from other third party and local strategic partners. These may range from commissioning / facilitating others to develop services in policing in Staffordshire; funding for regeneration projects; and through match funding, joint funding of developments.

5.9. Revenue

- Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). In addition to specific revenue funds previously set aside, such as repairs and renewal funds, capital expenditure may be funded by specific revenue budget provision. However, the general pressures on the Commissioner's revenue budget and Commissioner Tax levels limit the extent to which this may be exercised as a source of capital funding. The approved de minimis limit for spend which can be capitalised is £10,000 except for items which accumulate to more than £250,000 or vehicles (which are classed as assets and included on the asset register).

6. BORROWING AND LEASING

- 6.1. Under the Prudential Code the Commissioner has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from the project returns or upon agreement to include in the MTFS estimates.
- 6.2. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding additional capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.
- 6.3. The Commissioner will test the prudence of the borrowing predictions against the prudential indicators set under the Code every year as part of the MTFS process and report on progress against those indicators half yearly.
- 6.4. Given the pressure on the Commissioner's revenue budget in future years, prudent use has been made of this discretion in cases where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes which provide a net return over and above the borrowing cost.
- 6.5. The Commissioner will continue to consider on a cautious and prudent basis and is informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team the extent to which prudential borrowing may be undertaken to fund new capital investment, which generates returns over and above the revenue costs of the debt. A full capital repayment and there is a robust business case then the option of leasing may be considered. The financing of expenditure by lease needs to take into account;
- Value of expenditure
 - Residual value
 - Life span of equipment matches the funding proposed
 - The equipment to be replaced is part of a rolling programme that covers the whole service area or by type of equipment.
- 6.6. The Commissioner will utilise operational leases where possible for purchase of minor equipment, IT and vehicles supported by an appropriate robust business case.

7. BALANCED PORTFOLIO APPROACH

- 7.1. Resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts will be focused on those assets with short term life span (e.g. vehicles and IT investments) and the unsupported borrowing on long term assets (e.g. land and buildings). Surplus receipts in any one year will be assigned to finance the programme in the most economical way to safeguard minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) informed by the requirements from the MTFS.
- 7.2. All investments will need to reflect the full development purchase costs including property taxes and fees. Business cases will also need to include all lifetime costs (both revenue and capital) and income of the proposals. Where necessary, specialist advice is to be taken around the treatment of VAT and other related taxes such as SDLT.
- 7.3. The programme will include a range of grant, debt, equity and asset investment that is robustly secured, in a legally binding manner with appropriate cash flow.
- 7.4. The Commissioner will seek grant funded projects that include appropriate clauses for repayment if the investment over-achieves its financial outcomes, although not so as to be so restrictive as to avoid future investments by the applicant.
- 7.5. Debt funding can range from short term cash flow support through to longer term funding linked to infrastructure assets. Interest rates will be sought which are the best on offer through independent appraisal but reflecting appropriate legislation, for example State Aid
- 7.6. Equity investment may be made supported by full third party independent appraisal of risk and return.
- 7.7. Investment returns again will be balanced to size and returns. Smaller debt investment returns being the short term up to medium term of up to five years. Depending on security the interest rates will be applied accordingly.
- 7.8. Larger investments of debt and equity ranging from five years plus may be sought taking a particular reference to asset life time costing.

8. MINIMUM REVENUE PROVISION POLICY

- 8.1. To the extent that the Commissioner needs to borrow in order to fund the capital programme this will be provided for through the revenue account in future 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.
- 8.2. The Local Government Act 2003 requires the Commissioner to have regard to the Department for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision, the DHCLG Guidance most recently issued in 2012. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 8.3. For capital expenditure incurred before 1st April 2008, MRP will be determined as 2% of the Capital Financing Requirement in respect of that expenditure.
- 8.4. For unsupported capital expenditure incurred after 31st March 2008 and before 1st April 2018, MRP will be determined by charging the expenditure over a standard 40 years.
- 8.5. For unsupported capital expenditure incurred after 1st April 2018, 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.
- 8.6. For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Staffordshire County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 8.7. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.