

'Safer Together'

Medium Term Financial Strategy 2016 -17 to 2019 -20

Annual Budget 2016 -17



Devon & Cornwall Police



PCC
Office of the Police
and Crime Commissioner
Devon and Cornwall

The Medium Term Financial Strategy : 2016-17 To 2019-20

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* All documents indicated were presented to the Police and Crime Panel on the 5 February 2016.

At that meeting, having considered the evidence presented to them, the Panel agreed the 1.99% increase in the precept proposed.

Following this approval, the Police and Crime Commissioner decided to increase the precept by 1.99%. This is recorded as decision number: 35-5/2/2015 in the Office of the Police and Crime Commissioner's decision log.

Relationship between the Medium Term Financial Plan and the Police and Crime Plan

The Police and Crime Commissioner (PCC) has a statutory duty to produce a Police and Crime Plan. The Plan must set out the priorities for policing and community safety in Devon, Cornwall and the Isles of Scilly along with the resources that will be provided to the Chief Constable and others in order to meet those objectives. The Plan must be kept under regular review to ensure it remains appropriate to the needs of local people, the police and partners. The Plan is subject to scrutiny by the Police and Crime Panel.

The Police and Crime Plan can be found at:

<http://www.devonandcornwall-pcc.gov.uk/information-hub/key-documents/>

The Medium Term Financial Strategy is created to support delivery of the Police and Crime Plan. It sets out both the funding available and the forecast spending required to deliver the Plan priorities.

Police and Crime Plan

The Police and Crime Plan was refreshed in April 2015 and is informed by the Peninsula Strategic Assessment. The Plan sets out the PCC's six priorities for Devon and Cornwall and runs until 2017.

- To make our area a safer place to live, work and visit
- To reduce the crime and harm caused by the misuse of alcohol
- To make every penny count to protect policing in the long term
- To promote an effective Criminal Justice System for our area
- To deliver a high quality victim support service
- To encourage and enable citizens and communities to play their part

The Plan will remain the focus for policing over the coming months. The PCC will continue to work closely with the Chief Constable and colleagues across the Peninsula to drive forward progress against these priorities.

The Police and Crime Plan places a strong emphasis on protecting the vulnerable in our society. There has been significant progress over the last twelve months with the roll out of a new vulnerability screening tool and the launch of the new Victim Care Unit, but there remains more to be done.

The PCC has taken account of the most recent Peninsula Strategic Assessment prepared by the Community Safety Partnerships within Devon and Cornwall. This identifies two key threats for the Peninsula – domestic abuse/sexual violence and alcohol related harm. These are firmly embedded within the key priorities within the Plan.

The 2015 update to the Plan increased the focus on tackling safeguarding, child sexual exploitation and cyber crime, and put in place a stronger commitment to crime prevention. It also recognised the increased importance of local action to tackle extremism and counter terrorism. These issues will require considerable focus and investment over the coming year including continued work with national and local partners.

It remains vital that the public are able to access and contact the police. The PCC is determined that the 101 service is improved. While the police continue to develop alternative contact pathways, the PCC wishes to see waiting times on the 101 service reduced.

The Police and Crime Plan will be renewed once the new Police and Crime Commissioner takes office in May 2016.

Delivery & accountability

The Police and Crime Plan will be delivered by the PCC with close co-operation from the Chief Constable and partners taken forward through shared action plans and joint projects.

Each priority will be delivered by a joint OPCC and Force delivery board reporting to the Joint Management Board or to the Performance and Accountability Board. Regular progress reports will be published on the OPCC website.

The Police and Crime Commissioner is required to report regularly to the Police and Crime Panel.

Summary of Funding Changes and Calculation of Council Tax Requirement

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Council Tax Increase	1.99%	1.99%	1.99%	1.99%	1.99%
Gross Annual Expenditure	291,390	292,101	290,489	291,923	293,491
Appropriation to/(from) reserves	(2,033)	750	69	617	750
Gross Budget Requirement	289,357	292,851	290,558	292,540	294,241
Funding before Council Tax					
Formula Funding	(166,800)	(165,848)	(161,761)	(161,707)	(160,321)
Percentage change in formula fundi	-5.1%	-0.6%	-0.6%	-0.6%	-0.6%
Legacy Council Tax Grants	(15,461)	(15,461)	(15,461)	(15,461)	(15,461)
Other Central Government Grants	(3,249)	(3,360)	(3,251)	(2,803)	(2,803)
Total Central Government Funding	(185,510)	(184,669)	(180,473)	(179,971)	(178,585)
Percentage change in central government funding	4.1%	-0.5%	-2.3%	-0.3%	-0.8%
Surplus on Council Tax Collection Fund	(1,759)	(2,078)	(1,000)	(600)	(600)
Other income	(6,326)	(6,761)	(6,716)	(6,486)	(6,409)
Total Funding before Council Tax	(193,595)	(193,508)	(188,189)	(187,057)	(185,594)
Council Tax Requirement	95,762	99,343	102,369	105,483	108,647
Summary of Budget Changes		2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Gross Budget previous Year		289,357	289,357	289,357	289,357
Adjust for contributions to/from reserves		(2,740)	(2,740)	(2,740)	(2,740)
Inflation		2,505	5,127	7,966	11,064
Pay Commitments		2,610	2,623	1,380	(360)
Non-Pay Commitments		3,101	599	486	481
Policy Changes/Growth		3,512	4,512	6,109	8,448
Total Commitments		11,728	12,861	15,941	19,633
Net contribution to earmarked reserves		750	69	617	750
Gross Budget before Savings Requirement		299,095	299,547	303,175	307,000
Police Officers		(3,381)	(5,097)	(6,068)	(6,941)
Police Staff		(2,030)	(2,030)	(3,080)	(3,880)
Non-Pay Budget Reductions		(756)	(1,592)	(1,220)	(1,634)
OPCC and Commissioning		(77)	(270)	(267)	(304)
Total savings		(6,244)	(8,989)	(10,635)	(12,759)
Gross Budget Requirement		292,851	290,558	292,540	294,241
Deduct specific grant and other income		(10,121)	(9,967)	(9,289)	(9,212)
Net Budget Requirement		282,730	280,591	283,251	285,029

Main Components of the Budget

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Chief Constable				
Force Gross Budget Requirement	283,079	281,392	282,587	283,700
Specific Grant and Other Income	(8,244)	(8,089)	(7,411)	(7,334)
Net Budget Requirement	274,835	273,303	275,176	276,366
Police and Crime Commissioner				
Office of the Police and Crime Commissioner	1,613	1,606	1,625	1,647
Support for Council Tax Collection	12	12	12	12
Commissioning Budget	4,930	4,801	4,864	4,854
Specific Grant from Ministry of Justice	(1,878)	(1,878)	(1,878)	(1,878)
	4,677	4,541	4,623	4,635
Capital Financing				
Minimum Revenue Provision and interest payments	2,973	3,244	3,579	4,099
Interest Receipts	(505)	(566)	(744)	(821)
	2,468	2,678	2,835	3,278
Net budget before contribution to/from Reserves	281,980	280,522	282,634	284,279
Contribution to/(from) Reserves	750	69	617	750
Total Net Budget	282,730	280,591	283,251	285,029

Revenue Budget Movements

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Funding				
Police Grant	165,848	161,761	161,707	160,321
Legacy Council Tax Grant	15,461	15,461	15,461	15,461
Council Tax	99,343	102,369	105,483	108,647
Surplus on Collection Fund	2,078	1,000	600	600
Specific Grant	3,360	3,251	2,803	2,803
Other Income	6,761	6,716	6,486	6,409
Total Funding	292,851	290,558	292,540	294,241
Budget Requirement				
Net Base Budget 2015-16	279,782	279,782	279,782	279,782
Deduct budgeted contribution 2015/16 to Revenue Support Fund	(1,865)	(1,865)	(1,865)	(1,865)
Deduct budgeted contributions 2015/16 to other earmarked reserves	(875)	(875)	(875)	(875)
	<u>(2,740)</u>	<u>(2,740)</u>	<u>(2,740)</u>	<u>(2,740)</u>
Base Budget Previous Year - excluding appropriations to/from reserves	277,042	277,042	277,042	277,042
External Funding Changes				
Increases/Decreases in external income and specific grants	(546)	(392)	286	363
	<u>(546)</u>	<u>(392)</u>	<u>286</u>	<u>363</u>
Inflation				
Provision for Pay and Price Increases	2,505	5,127	7,966	11,064
	<u>2,505</u>	<u>5,127</u>	<u>7,966</u>	<u>11,064</u>
Pay Commitments				
Increments	1,927	4,357	6,587	8,517
Police Officer Turnover	(3,781)	(7,162)	(10,300)	(15,092)
National Insurance (single state pension)	4,500	4,500	4,500	4,500
Winsor 2 changes and other changes to allowances	(1,066)	(1,466)	(1,466)	(1,466)
Change in overtime profile	(326)	460	87	121
Change in holiday pay costs	400	400	400	400
Other change in pay commitments	956	696	734	1,822
Apprenticeship Levy	0	838	838	838
	<u>2,610</u>	<u>2,623</u>	<u>1,380</u>	<u>(360)</u>
Non-Pay Commitments				
Capital Financing	(115)	95	252	695
Major Equipment Replacement	(30)	295	226	226
Increase in estates contract cost (including Refuse Collection)	199	199	199	199
Other changes in premises costs	78	(91)	(197)	(302)
Estates Development Costs	757	0	0	0
Police National Computer (PNC) Charges	599	623	647	717
ICT facilities management contract - changes in metrics and prices	136	173	210	328
Net savings other ICT contracts	(257)	(263)	(267)	(208)
Change in National Police Air Service Contribution	(315)	(625)	(945)	(945)
Savings on contractual costs	(12)	(332)	(290)	(318)
Regional Collaboration increase in costs including Zephyr estates cost	302	302	302	302
Strategic Alliance - transitional costs	1,404	0	0	0
Mobile data	0	100	100	100
Other changes in commitments	355	123	249	(313)
	<u>3,101</u>	<u>599</u>	<u>486</u>	<u>481</u>
Policy Changes				
Strategic Alliance - ICT Convergence & ESN	1,025	125	1,975	3,125
Policing Plan Priorities - increased funding for 101 service	250	0	0	0
Policing Plan Priorities - Regional Collaboration	419	0	0	0
Policing Plan Priorities	0	1,000	1,000	0
Specials/volunteering	500	1,000	1,300	1,300
OPCC Income Generation	50	50	50	50
	<u>2,244</u>	<u>2,175</u>	<u>4,325</u>	<u>4,475</u>
Implementation of Workforce Plan				
Police Officer Costs	675	614	183	2,197
Police Staff Investigators	915	1,830	1,830	1,830
PCSOs and PCMOs	(322)	(107)	(229)	(54)
	<u>1,268</u>	<u>2,337</u>	<u>1,784</u>	<u>3,973</u>
Net Contributions to earmarked reserves	750	750	750	750
Base Budget before Savings and Service Reviews	288,974	290,261	294,019	297,788

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Identified Budget Reductions and Savings				
Reduction in Police Officer Numbers	(3,381)	(5,097)	(6,068)	(6,941)
Reduction in Police Staff Numbers	(2,030)	(2,030)	(3,080)	(3,880)
Non-Pay Budget Reductions	(756)	(1,592)	(1,220)	(1,634)
OPCC & Commissioning	(77)	(270)	(267)	(304)
Total Net Savings	(6,244)	(8,989)	(10,635)	(12,759)
Appropriations to/from Revenue Smoothing Fund				
Revenue Smoothing Fund	0	(681)	(133)	0
	0	(681)	(133)	0
Net Budget Requirement	282,730	280,591	283,251	285,029
Add Back External Income and Specific Grants	10,121	9,967	9,289	9,212
Gross Budget Requirement	292,851	290,558	292,540	294,241
Savings Plan 2014-18				
1 Reduction in Police Officer Numbers / Rank Profile / WFP Profile				
Reduction in Numbers	(1,231)	(1,477)	(1,477)	(1,477)
Strategic Alliance - police officers	(2,150)	(3,620)	(4,591)	(5,464)
2 Reduction in Police Staff Numbers				
Savings from Targeted Police Staff Reviews	(830)	(830)	(830)	(830)
Delayed Crime Review	(300)	(300)	(300)	(300)
Strategic Alliance - police staff	(900)	(900)	(1,950)	(2,750)
3 Non-Pay Budget Reductions				
Estates Strategy	(48)	(436)	(58)	(472)
Other savings	(14)	(62)	(68)	(68)
Vehicle reductions	(600)	(600)	(600)	(600)
Programme benefits realisation Mobile data	(94)	(94)	(94)	(94)
ICT - telephony and data network	0	(400)	(400)	(400)
4 OPCC				
Commissioning Budgets	0	(186)	(181)	(220)
OPCC Office Costs	(77)	(84)	(86)	(84)
Total Identified Savings	(6,244)	(8,989)	(10,635)	(12,759)
5 Revenue Smoothing Fund Balance				
Opening Balance	12,393	12,393	11,712	11,579
Application to Revenue Budget	0	(681)	(133)	0
Closing Balance	12,393	11,712	11,579	11,579

Key Budget Headings

Cost Type	Key Budgets	Financial Year				
		15-16 £000	16-17 £000	17-18 £000	18-19 £000	19-20 £000
Police Officer Costs	Pay and On Costs	148,133	148,921	147,692	146,451	147,193
	Allowances	6,286	4,557	4,169	4,169	4,169
	Operational Overtime	2,026	2,321	2,321	2,321	2,321
	Bank Holiday Overtime	1,260	1,051	1,571	1,224	1,402
Police Staff costs	PCSO Pay and Allowances	11,294	11,363	11,786	11,937	12,112
	Police Staff Pay and Allowances	55,726	58,344	59,266	59,147	59,463
	Police Staff Overtime	755	721	784	741	763
	Police Staff: Other	1,200	1,129	1,129	1,129	1,129
Pensions	Injury Awards and Ill Health Retirement	2,757	2,783	2,809	2,835	2,835
Training	Training	819	787	787	787	787
Total All Staff Groups		230,256	231,977	232,314	230,741	232,174
Premises	Premises	11,592	12,197	11,503	11,679	11,169
Supplies & Services	Facilities	1,122	1,146	1,151	1,155	1,160
	ICT FM Contract (BT)	3,177	3,203	3,321	3,390	3,557
	ICT costs (exc BT Contract)	7,664	7,432	7,060	7,131	7,255
	Forensics and Scientific Equipment	1,585	1,638	1,638	1,638	1,638
	Outsourced Services	3,101	3,130	3,130	3,130	3,130
	Legal	614	619	619	619	619
	All other budget costs	6,929	8,966	8,926	9,243	7,522
Transport	Vehicles and Travel	3,027	2,807	2,787	2,747	2,727
	Fuel	2,640	2,252	2,279	2,276	2,276
Third Party Payments	Regional Collaboration and National Contributions	5,024	5,626	5,214	4,963	5,033
	Other Third Party Payments	1,255	720	720	720	720
Income	Specific Grants	(1,442)	(1,482)	(1,373)	(925)	(925)
	Other Income	(6,695)	(6,761)	(6,716)	(6,486)	(6,409)
Total Non-Staff		39,593	41,493	40,259	41,280	39,472
Operational	Major Operations including police officer overtime	800	800	800	800	800
Change	Programme & Projects	1,627	2,652	1,752	3,602	4,752
Use of Reserves	Use of Reserves	(310)	(2,087)	(1,822)	(1,249)	(832)
Force Revenue Budget		271,966	274,835	273,303	275,174	276,366
Non-Operational Budgets	Office of the Police and Crime Commissioner	1,568	1,625	1,618	1,639	1,659
	Capital Financing and Treasury Management	2,583	2,468	2,678	2,835	3,278
	Commissioning and Partnership Working	2,915	3,052	2,923	2,986	2,976
	Other Contributions to / from Reserves	750	750	69	617	750
Total Revenue Budget		279,782	282,730	280,591	283,251	285,029

Reserves Transactions in Revenue Budget

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Expenditure funded from Reserves ¹				
Programme and Projects Reserve	504	643	47	0
Workforce Modernisation	1,240	180	0	0
Strategic Alliance	357	702	554	306
Police and Crime Plan	120	100	100	71
Estates Development Reserve	0	470	225	85
Police Officer Ill Health	370	370	370	370
	<u>2,591</u>	<u>2,465</u>	<u>1,296</u>	<u>832</u>
Contribution from Earmarked Reserves ²				
Programme and Projects Reserve	(504)	(643)	(47)	0
Workforce Modernisation	(1,240)	(180)	0	0
Strategic Alliance	(357)	(702)	(554)	(306)
Police and Crime Plan	(120)	(100)	(100)	(71)
Estates Development Reserve	0	(470)	(225)	(85)
Police Officer Ill Health	(370)	(370)	(370)	(370)
	<u>(2,591)</u>	<u>(2,465)</u>	<u>(1,296)</u>	<u>(832)</u>
Contribution to Reserves				
Capital Financing Fund	750	750	750	750
Net Contribution to Earmarked reserves ³	<u>750</u>	<u>750</u>	<u>750</u>	<u>750</u>
Contribution from Revenue Support Fund ⁴	0	(681)	(133)	0
	<u>750</u>	<u>69</u>	<u>617</u>	<u>750</u>

Notes

1 Expenditure to be funded from the reserves held by the PCC to fund transformation activities and for exceptional and unpredictable costs.

2 Budgeted contributions from the reserves held for transformation and for exceptional and unpredictable costs match the budgeted expenditure.

3 Net contribution to reserves from revenue budget to fund future capital expenditure.

4 Contribution from the Revenue Support Fund which reduces net budget requirement.

Medium Term Financial Strategy 2016-17 - Income

Income Category	Budget 2016-17 £'000
Sale of Police Services/Goods	1,097
Firearms Licences	509
Reimbursements from Public Bodies	3,074
Other Police Chargeable Services	2,077
Local Grants and Partnership Contributions	4
Total	6,761

Staffing Analysis (FTE)

		2016-17	2017-18	2018-19	2019-20
Police Officers	Opening at 1 st April	2,967	2,924	2,870	2,853
	Change	(43)	(54)	(17)	(4)
	Closing at 31 st March	2,924	2,870	2,853	2,849
PCSOs/PCMO	Opening at 1 st April	349	360	360	360
	Change	11	0	0	0
	Closing at 31 st March	360	360	360	360
Police Staff: Force	Opening at 1 st April	1,787	1,759	1,760	1,729
	Change	(28)	1	(31)	(24)
	Closing at 31 st March	1,759	1,760	1,729	1,705
Police Staff: PCC*	Opening at 1 st April	20	20	20	20
	Change	0	0	0	0
	Closing at 31 st March	20	20	20	20
Total at 31st March		5,063	5,010	4,962	4,934

Specific Grants

	2016-17	2017-18	2018-19	2019-20
	£000	£000	£000	£000
Counter Terrorism	1,382	1,333	885	885
Victim support and Restorative Justice	1,878	1,878	1,878	1,878
Other grants	100	40	40	40
Total	3,360	3,251	2,803	2,803

	Total Reserves										
	Capital Reserves			Provisions				General Balances		Total Reserves Balances and Provisions	Total Revenue Reserve and General Balances
	Total Earmarked Revenue Reserves £000	Capital Grant £000	Capital Receipts £000	Total Capital Reserves £000	Insurance £000	Remuneration £000	Other £000	Total Provisions £000	£000	£000	£000
Closing Balance 31/3/2015	59,092	742	4,035	4,777	1,244	461	1,052	2,757	6,198	72,824	65,290
2015-16											
Budgeted contributions	2,740									2,740	2,740
Budgeted applications	(4,886)									(4,886)	(4,886)
Additional Spending	(3,380)									(3,380)	
Grants and Contributions Received		2,152		2,152						2,152	
Capital receipts											
Financing Capital Programme	(2,965)	(2,045)	(692)	(2,737)						(5,702)	(2,965)
Additional Contributions	130									130	130
Closing Balance 31/3/2016	50,731	849	3,343	4,192	1,244	461	1,052	2,757	6,198	63,878	56,929
2016-17											
Budgeted contributions	750									750	750
Budgeted applications	(2,591)									(2,591)	(2,591)
Grants and Contributions Received		1,076		1,076						1,076	
Capital receipts			4,960	4,960						4,960	
Financing capital programme	(7,264)	(1,925)	(2,038)	(3,963)						(11,227)	(7,264)
Closing Balance 31/3/2017	41,626		6,265	6,265	1,244	461	1,052	2,757	6,198	56,846	47,824
2017-18											
Budgeted contributions	750									750	750
Budgeted applications	(3,146)									(3,146)	(3,146)
Grants and Contributions Received		1,076		1,076						1,076	
Capital receipts			4,625	4,625						4,625	
Financing capital programme	(7,071)	(1,076)	(4,740)	(5,816)						(12,887)	(7,071)
Closing Balance 31/3/2018	32,159		6,150	6,150	1,244	461	1,052	2,757	6,198	47,264	38,357
2018-19											
Budgeted contributions	750									750	750
Budgeted applications	(1,429)									(1,429)	(1,429)
Grants and Contributions Received		1,076		1,076						1,076	
Capital receipts			4,000	4,000						4,000	
Financing capital programme	(3,994)	(1,076)	(3,165)	(4,241)						(8,235)	(3,994)
Closing Balance 31/3/2019	27,486		6,985	6,985	1,244	461	1,052	2,757	6,198	43,426	33,684
2019-20											
Budgeted contributions	750									750	750
Budgeted applications	(832)									(832)	(832)
Grants and Contributions Received		1,076		1,076						1,076	
Capital receipts			1,550	1,550						1,550	
Financing capital programme	(7,768)	(1,076)	(5,005)	(6,081)						(13,849)	(7,768)
Closing Balance 31/3/2020	19,636		3,530	3,530	1,244	461	1,052	2,757	6,198	32,121	25,834

Earmarked Revenue Reserves

	Transformation Reserves				Reserves for Exceptional Costs		Reserves for Unpredictable Costs			Revenue Support Reserves		Total Earmarked Revenue Reserves
	Programme and Projects Reserve £000	Estates Development Reserve £000	Capital Financing Reserve £000	Strategic Alliance Reserve £000	Workforce Modernisation Reserve £000	Remuneration Reserve £000	Police Officer III Health £000	Major Operations Reserve £000	Police and Crime Plan Reserve £000	Budget Management Fund £000	Revenue Support Fund £000	£000
Closing Balance 31/3/2015	5,477	492	5,327	2,112	10,639	2,876	1,000	2,375	951	1,265	26,578	59,092
2015-16												
Budgeted contributions			750								1,990	2,740
Budgeted applications	(1,214)	(542)		(1,000)	(1,620)		(370)		(140)			(4,886)
Financing capital programme	(46)		(2,589)	(205)					(125)			(2,965)
Additional spending	(2,115)									(1,265)		(3,380)
Approved Transfers within reserves												0
to Strategic Alliance				5,485	(3,960)						(1,525)	0
to Workforce Modernisation					2,876	(2,876)						0
to Estates Development		349			(349)							0
to Police Officer III Health					(280)		930				(650)	0
Additional Transfers within Reserves		500	14,844	1,542	(2,886)						(14,000)	0
Additional Contributions									130			130
Closing Balance 31/3/2016	2,102	799	18,332	7,934	4,420		1,560	2,375	816		12,393	50,731
2016-17												
Budgeted contributions			750									750
Budgeted applications	(504)			(357)	(1,240)		(370)		(120)			(2,591)
Financing capital programme			(5,426)	(1,413)					(425)			(7,264)
Closing Balance 31/3/2017	1,598	799	13,656	6,164	3,180		1,190	2,375	271		12,393	41,626
2017-18												
Budgeted contributions			750									750
Budgeted applications	(643)	(470)		(702)	(180)		(370)		(100)		(681)	(3,146)
Financing capital programme			(6,869)	(202)								(7,071)
Closing Balance 31/3/2017	955	329	7,537	5,260	3,000		820	2,375	171		11,712	32,159
2018-19												
Budgeted contributions			750									750
Budgeted applications	(47)	(225)		(554)			(370)		(100)		(133)	(1,429)
Financing capital programme			(3,794)	(200)								(3,994)
Closing Balance 31/3/2018	908	104	4,493	4,506	3,000		450	2,375	71		11,579	27,486
2019-20												
Budgeted contributions			750									750
Budgeted applications		(85)		(306)			(370)		(71)			(832)
Financing capital programme			(4,968)	(2,800)								(7,768)
Budgeted Transfers within reserves												0
Closing Balance 31/3/2018	908	19	275	1,400	3,000		80	2,375			11,579	19,636

Commissioning Intentions Strategy 2016/17

Area	Devon	Cornwall	Plymouth	Torbay	Isles of Scilly	Totals
	£	£	£	£	£	£
Community Safety Partnerships	535,470	448,636	400,568	201,575	14,000	1,600,249
Childrens Safeguarding						75,000
Adults Safeguarding						70,000
SARCS						220,000
YOTS	190,266	160,225	85,119	65,091		500,701
Street Triage						100,000
Victims Services						1,878,206
Draft Total	725,736	608,861	485,687	266,666	14,000	4,444,156
Commissioning Posts						149,021
Contingency						337,376
Total	725,736	608,861	485,687	266,666	14,000	4,930,553

MTFS Totals

Commissioning Budget	4,930,553
Grant	(1,878,206)
Net Commissioning Budget	3,052,347

Council Tax Information and Precept

Tax Base, Collection Variations and Precepts

	Tax Base declared by Councils	Total Precept payable by Councils £	Surplus (Deficit) on collection £	Amount due from Councils £	% share payable by Councils
East Devon	56,404.00	9,748,867.36	161,603.50	9,910,470.86	9.77%
Exeter	35,429.00	6,123,548.36	85,053.00	6,208,601.36	6.12%
Mid Devon	27,507.03	4,754,315.07	6,234.00	4,760,549.07	4.69%
North Devon	32,210.92	5,567,335.41	6,420.73	5,573,756.14	5.50%
Plymouth	69,846.00	12,072,182.64	13,935.00	12,086,117.64	11.92%
South Hams	37,003.99	6,395,769.63	185,000.00	6,580,769.63	6.49%
Teignbridge	46,797.00	8,088,393.48	210,165.00	8,298,558.48	8.18%
Torbay	43,180.70	7,463,352.19	281,015.00	7,744,367.19	7.64%
Torridge	22,760.83	3,933,981.86	91,374.00	4,025,355.86	3.97%
West Devon	19,733.41	3,410,722.58	177,000.00	3,587,722.58	3.54%
Cornwall	182,547.60	31,551,527.18	860,000.00	32,411,527.18	31.96%
Isles of Scilly	1,346.90	232,798.20	0.00	232,798.20	0.23%
	<u>574,767.38</u>	<u>99,342,793.96</u>	<u>2,077,800.23</u>	<u>101,420,594.19</u>	<u>100.0%</u>

Police element of Council Tax due for each Property Valuation Band

Valuation band	Government multiplier Ratio	Council Tax by band		Increase per week	%
A	6 / 9	0.667	£115.23	£112.98	+ 4.3 p
B	7 / 9	0.778	£134.43	£131.81	+ 5.0 p
C	8 / 9	0.889	£153.64	£150.64	+ 5.8 p
D	1	1.000	£172.84	£169.47	+ 6.5 p
E	11 / 9	1.222	£211.25	£207.13	+ 7.9 p
F	13 / 9	1.444	£249.66	£244.79	+ 9.4 p
G	15 / 9	1.667	£288.07	£282.45	+ 10.8 p
H	18 / 9	2.000	£345.68	£338.94	+ 13.0 p

Calculation of relevant basic amount of Council Tax

$$\frac{\text{Council Tax Requirement } 99,342,793.96}{\text{Tax base } 574,767.38} = £172.84$$

Summary Programme 2016-17 to 2019-20

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
ICT Roadmap MTFS 14/15 - 18/19	2,060	660	955	1,874	5,549
Airwave	250	380	225		855
ESMCP	100		1,500	1,800	3,400
ICT Convergence Enabling and additional	1,825	202	200		2,227
ICT Convergence Inevitables	384	510		3,200	4,094
Programme					
New Technology for Investigation	90				90
Mobile Data					
Vehicle Replacement Programme	2,764	1,745	2,315	1,525	8,349
Body Armour Replacement	100	100	100	100	400
ANPR					
Total Short Life Assets	7,573	3,597	5,295	8,499	24,964
Estates Programme excluding Exeter CJC Hub					
Existing rationalisation programme	534	1,915	870	580	3,898
Custody Refurbishment	474	164			638
Refurbishment programme	1,384	320	1,150	3,000	5,854
New rationalisation programme	875		70	770	1,715
Property Store re-provision		150	1,000		1,150
OPCC relocation and works related works	495				495
Regional Command Centre				2,000	2,000
Exeter CJC Hub enabling works					
Sub-total	3,762	2,549	3,090	6,350	15,750
Exeter CJC Hub	4,000	14,800	6,000		24,800
Total Estates Programme	7,762	17,349	9,090	6,350	40,550
Total	15,335	20,946	14,385	14,849	65,514
Funding					
Short Life Assets					
Grant	1,925	1,076	1,076	1,076	5,153
Capital Financing and Programme Projects Reserves	2,926	1,369	3,794	2,968	11,057
Direct Revenue Funding	180				180
Strategic Alliance Reserve	1,413	202	200	2,800	4,615
Capital Receipts	1,129	950	225	1,655	3,959
	7,573	3,597	5,295	8,499	24,964
Estates Programme					
Capital Financing Reserve	500			2,000	2,500
Police and Crime Fund Reserve	425				425
Capital Receipts	909	1,915	940	3,350	7,113
Borrowing	1,928	634	2,150	1,000	5,712
	3,762	2,549	3,090	6,350	15,750
Exeter CJC Hub					
Capital Receipts		1,875	2,000		3,875
Borrowing	2,000	7,425	4,000		13,425
Capital Financing Reserve	2,000	5,500			7,500
	4,000	14,800	6,000	0	24,800
Total	15,335	20,946	14,385	14,849	65,514
Resources					
Borrowing	3,928	8,059	6,150	1,000	19,137
Grant	1,925	1,076	1,076	1,076	5,153
Funds and reserves	7,264	7,071	3,994	7,768	26,097
Capital Receipts	2,038	4,740	3,165	5,005	14,947
Direct Revenue Funding	180	0	0	0	180
	15,335	20,946	14,385	14,849	65,514

Financing Resources assuming no Middlemoor Receipt

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020
Grant	(849)	0	0	0	0
Funds & Reserves	(18,497)	(13,821)	(7,702)	(4,658)	(440)
Capital Receipts	(3,342)	(6,264)	(6,149)	(6,984)	(3,529)
	(22,688)	(20,085)	(13,851)	(11,642)	(3,969)

Capital Expenditure and Prudential Indicators

Capital Programme 2016-17 onwards	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Total Programme	15,335	20,946	14,385	14,849	65,514
Financed by:					
Borrowing	3,928	8,059	6,150	1,000	19,137
Grant	1,925	1,076	1,076	1,076	5,153
Funds and reserves	7,264	7,071	3,994	7,768	26,097
Capital Receipts	2,038	4,740	3,165	5,005	14,947
Direct Revenue Funding	180	0	0	0	180
Total Financing for Current Capital Programme	15,335	20,946	14,385	14,849	65,514

Prudential Indicators

The Police and Crime Commissioner is required to consider a range of indicators in order to form a judgement about whether the proposed level of debt is affordable, prudent and sustainable.

The indicators below show the impact of the capital expenditure and the level of debt on the revenue budget and hence provide information on the affordability of the capital expenditure plans.

(i) Estimate of the ratio of net capital financing costs to revenue budget

Capital financing costs comprise minimum repayment of "loan principal" and interest paid on loans and finance leases, offset by interest received.

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Minimum Revenue Provision	1,514	1,559	1,590	1,983
Finance Lease Minimum Revenue Provision	63	0	0	0
Interest payable on Long Term Borrowing	1,459	1,685	1,989	2,116
Interest Received (net)	(505)	(566)	(744)	(821)
Capital Financing Costs	2,531	2,678	2,835	3,278
Net Budget Requirement	282,730	280,591	283,251	285,029
Ratio of financing costs to net revenue stream	0.90%	0.95%	1.00%	1.15%

(ii) Incremental Impact on Council Tax

This indicator shows the incremental impact on the Band D council tax payer of the additional capital expenditure funded from borrowing included in the 2016-17 capital programme.

	2016-17	2017-18	2018-19	2019-20
Incremental increase in Council Tax arising from Capital Expenditure Plans	£0.11	£0.30	£0.37	£0.45

Treasury Management Strategy for 2016-17

RECOMMENDATIONS:

That the Treasury Management / Investment Strategy be approved and specifically that:

- (i) the Annual Investment Strategy be approved;**
- (ii) the Borrowing Strategy as set out in section 5 be approved;**
- (iii) the Treasurer should retain the flexibility to invest funds directly in the PCC's Investment Fund within the limits set out in the strategy;**
- (iv) the counterparty list attached at Appendix 6 be approved for all new lending;**
- (v) the capital expenditure prudential indicators (paragraph 3.1), the external debt indicators (paragraphs 5.2 & 5.6), the Treasury Management Limits on Activity (paragraph 5.15.1 & 5.15.2) and the Investment Treasury Indicator (paragraph 6.27) be approved;**
- (vi) the Minimum Revenue Provision Statement attached at Appendix 1 be approved;**
- (vii) the use of Barclays as the Police and Crime Commissioner's bankers be noted.**

1 Purpose of the Treasury Management Strategy

1.1 The purpose of the Treasury Management Strategy is to ensure that:

1.1.1 Revenue Cash Flow is Adequately Planned

The Police and Crime Commissioner (PCC) is required to operate a balanced budget, which in broad terms means that cash raised during the year will meet cash expenditure. The treasury management operation is designed to:

- ensure that cash flow is adequately planned during the year, with cash being available when it is needed;
- invest surplus monies in counterparties or instruments commensurate with the Police and Crime Commissioner's (PCC's) risk appetite, providing adequate liquidity before considering the investment return.

1.1.2 Funding is Available to meet Capital Expenditure Plans

The second main objective of the treasury management function is the funding of the PCC's capital plans. Capital expenditure does not have to be charged against the income for the year and for this reason longer term cash flow planning is required to ensure that the PCC can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet the PCC's risk or cost objectives.

1.2 The Treasury Management Strategy is integrated with the Medium Term Financial Strategy and this document should be read in conjunction with the report on the Medium Term Financial Strategy 2016-17 to 2019-20.

2 Treasury Management Strategy 2016-17

2.1 The strategy for 2016-17 covers two main areas:

2.1.1 Capital issues:

- the capital plans and Prudential indicators;
- the minimum revenue provision (MRP) strategy.

2.1.2 Treasury management issues:

- the current treasury position;
- treasury indicators which limit the treasury risk and related activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government's (DCLG) MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

2.3 The PCC's objectives for treasury management (both investing and borrowing) are as follows:

- effective management and control of risk is the prime objective;
- the PCC attaches a high priority to revenue cost stability. This aids stable financial planning and avoids a stop-start approach to service delivery. This means a relatively low-risk attitude to treasury management is adopted, and it is accepted that this may come at a cost;
- the main risks with regard to treasury management activities are security, liquidity and yield risk. The PCC's treasury management policies will prioritise the risks in that order of importance, that is highest priority will be given to security, followed by liquidity and then yield;
- the PCC will pursue best value in treasury management within the context of effective risk management.

3 The Capital Prudential Indicators 2015-16 to 2019-20

- 3.1 The PCC's capital expenditure plans are set out in detail in the Medium Term Financial Strategy and are summarised below.

Table 1 - The Capital Programme

	2015-16 Forecast £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Capital Expenditure	6,043	15,335	20,946	14,385	14,849
Funded By:					
Gross Borrowing	341	3,928	8,059	6,150	1,000
Other capital resources	5,702	11,407	12,887	8,235	13,849

- 3.2 The capital financing requirement is a measure of the Commissioner's underlying need to borrow.

Table 2 - Capital Financing Requirement

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Opening Capital Financing Requirement	41,919	40,570	42,921	49,421	53,981
Capital expenditure to be funded by borrowing	341	3,928	8,059	6,150	1,000
Less minimum revenue provision	(1,504)	(1,514)	(1,559)	(1,590)	(1,983)
Less finance lease minimum revenue provision	(186)	(63)	0	0	0
Closing Capital Financing Requirement	40,570	42,921	49,421	53,981	52,998

Capitalisation of Equal Pay

- 3.3 The PCC may use capital receipts to fund one off costs in relation to equal pay claims. The proposed capital programme as set out in the MTFS assumes that there will be no need to apply capital receipts to cover the one off costs of equal pay claims. This Treasury Management Strategy, and in particular the calculation of the Capital Financing Requirement as set out in table 2 above and the borrowing strategy as set out in paragraphs 5.8 to 5.12 below, are based on this assumption.

Minimum Revenue Provision (MRP) Policy Statement

- 3.4 The PCC is required to pay off an element of the Capital Financing Requirement each year through a charge to revenue. DCLG regulations have been issued which require the PCC to approve an MRP Statement in advance of each year. The proposed statement is attached at Appendix 1.

Core Funds and Expected Investment Balances

- 3.5 Budget decisions with regard to contributions to and from revenue reserves and the application of resources (capital receipts, reserves etc.) to finance capital expenditure have an ongoing impact on investments. Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 3 - Core Funds and Expected Investment Balances

	31/3/16	31/3/17	31/3/18	31/3/19	31/3/20
	£000	£000	£000	£000	£000
Fund balances / reserves	56,929	47,824	38,357	33,684	25,834
Unapplied capital grant/ receipts	4,192	6,265	6,150	6,985	3,530
Provisions	2,757	2,757	2,757	2,757	2,757
Total core funds	63,878	56,846	47,264	43,426	32,121
Working capital*	200	200	200	200	200
(Under)/over borrowing	(5,700)	(7,100)	(5,200)	(4,700)	(3,200)
Actual/Expected investments	58,378	49,946	42,264	38,926	29,121

*Working capital balances shown are year end estimates which may be higher or lower mid year

Internal Borrowing

- 3.6 For a number of years the Police and Crime Commissioner has had a policy of internal borrowing. This was a result of the situation where long term borrowing rates are significantly higher than short term interest rates providing a significant incentive to avoiding external borrowing where possible. This situation continues to prevail and for this reason internal borrowing is the lowest cost option in the short term. Internal borrowing is however limited by the availability of cash reserves and table 3 above shows that these are due to decline over the medium term. Table 6 below shows that, going forward, the proposed Treasury Management Strategy maintains internal borrowing at no more than 12.5% of total reserves and balances.

4 Affordability Indicators 2016-17 to 2019-20

- 4.1 The affordability indicators demonstrate the impact of the capital investment plans on the PCC's overall finances.

Estimate of the ratio of net capital financing costs to revenue budget

- 4.2 Capital financing costs comprise minimum repayment of "loan principal" and interest paid on loans offset by interest received.

Table 4 - Ratio of Net Capital Financing Costs to Revenue Budget

	2015-16 Revised Budget £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Minimum Revenue Provision	1,504	1,514	1,559	1,590	1,983
Interest payable on Long Term Borrowing	1,400	1,459	1,685	1,989	2,116
Interest Received (net)	(494)	(505)	(566)	(744)	(821)
Capital Financing Costs	2,410	2,468	2,678	2,835	3,278
Finance Lease Minimum Revenue Provision	186	63	0	0	0
Total Capital Financing Costs	2,596	2,531	2,678	2,835	3,278
Net Budget Requirement	279,782	282,730	280,591	283,251	285,029
Ratio of financing costs to net revenue stream	0.93%	0.90%	0.95%	1.00%	1.15%

Incremental Impact on Council Tax

- 4.3 This indicator shows the incremental impact on the Band D council tax payer of the additional capital expenditure funded from borrowing included in the 2016-17 capital programme.

Table 5 - Incremental Impact on Council Tax

	2016-17	2017-18	2018-19	2019-20
Incremental increase in Council Tax arising from Capital Expenditure Plans	£0.06	£0.30	£0.37	£0.44

5 Borrowing

- 5.1 The capital expenditure plans set out in Section 3 above provide detail of the service activity of the PCC. This section shows how those plans impact on the need to borrow and the forecast level of external borrowing.

5.2 Current Position

The PCC's borrowing position at 31 March 2016, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting any over or under borrowing. It is based on certain assumptions with regard to new borrowing which are set out in paragraphs 5.8 to 5.13 below.

Table 6 - External Debt at 31 March

	2015-16 Est £000	2016-17 Est £000	2017-18 Est £000	2018-19 Est £000	2019-20 Est £000
1 Opening external debt	34,778	34,778	35,778	44,278	49,278
2 Debt maturing	0	(4,500)	0	0	0
3 Additional Debt	0	5,500	8,500	5,000	500
4 Closing external debt	34,778	35,778	44,278	49,278	49,778
5 Finance Lease Liabilities	168	63	0	0	0
5 Total Forecast Debt	34,946	35,841	44,278	49,278	49,778
6 Capital Financing Requirement	40,570	42,921	49,421	53,981	52,998
7 Internal Borrowing (CFR-Debt)	5,729	7,143	5,143	4,703	3,220
8 Internal Borrowing as % of Total Reserves (Core Funds)	8.9%	12.5%	10.7%	10.6%	9.6%

5.3 Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016-17 and the following two financial years.

5.4 The Treasurer reports that the PCC complied with this prudential indicator in the current year and does not envisage difficulties for the future (row 5 of table 6 is always lower than row 6). This view takes into account current commitments, existing plans, and the proposals in the Medium Term Financial Strategy.

Prudential Indicators for External Debt

5.5 **The operational boundary** is the limit which external debt is not normally expected to exceed.

5.6 **The Authorised Limit** represents the maximum level at which the Commissioner is able to borrow and enter into other long term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Commissioner.

Table 7 - Prudential Indicators for External Debt

	2016-17	2017-18	2018-19	2019-20
	£000	£000	£000	£000
Long term borrowing for capital purposes	42,921	49,421	53,981	52,998
Lease Finance	63	0	0	0
Maximum cash-flow deficit arising from revenue budget operations	10,000	10,000	10,000	10,000
Operational Boundary	52,984	59,421	63,981	62,998
Additional margin for unforeseen circumstances	3,000	3,000	3,000	3,000
Authorised Limit	55,984	62,421	66,981	65,998

Prospects for Long Term Interest Rates

5.7 The PCC will appoint a treasury advisor and part of their service will be to assist the Commissioner to formulate a view on interest rates. Appendix 3 gives a market view with regards to long term interest rates (published 20 January 2016). It should be noted that:

- The market forecast shows long term interest rates rising steadily over the next three years, with 25 yr PWLB debt rising from 3.4% to 4.1%.
- Actual experience in January 2016 has been that rates have declined from 3.45% to approximately 3% as a result of concerns over global economic growth.

Borrowing Strategy 2016-17 to 2019-20

5.8 The overall aims of the borrowing strategy are:

- borrowing at the lowest possible rates in the most appropriate periods;
- minimising borrowing costs and expenses;
- the management of debt maturities to avoid large levels of maturities in any one year.

5.9 For a number of years market conditions have been such that internal borrowing (use of the PCC's own cash resources to fund capital expenditure) was, in the short term, the most cost effective method of borrowing. This is because the opportunity cost of not lending working balances and reserves (i.e. the interest returns on short term loans) was significantly below the cost of borrowing to finance the capital programme. Internal borrowing also has the advantage of reducing credit and counter party risk as external lending by the PCC is reduced.

- 5.10 In the Autumn of 2014 this policy was re-evaluated as market forecasts indicated that long term interest rates were due to increase. A new loan of £4m was taken that increased net borrowing by £2m (as a £2m loan matured in 2014/15). Further borrowing was planned for 2015/16; this has not taken place because capital expenditure has been lower than planned and long term interest rates have risen more slowly than forecast.
- 5.11 The borrowing strategy needs to be based on forecasts of; capital spending, available capital resources, capacity for internal borrowing and future interest rates. The proposed borrowing strategy is based on the following information:
- A planned increase in capital expenditure to be funded from borrowing
 - A forecast rise in long term interest rates; which would mean that borrowing in 2016-17 to 2018-19 may be more economic than deferring borrowing to a future date.
 - A forecast reduction in reserves from 2016-17 onwards indicating that capacity for internal borrowing declines over the four years of the MTFS
- 5.12 There is however uncertainty within the PCC's capital programme, this concerns; the level of forecast capital expenditure (will the planned programme be delivered), the level of capital receipts and also the level of revenue reserves available to fund capital expenditure. In particular the latter is dependent of future Home Office decisions on the police funding formula. In setting a Treasury Management Strategy it is important to use a realistic set of assumptions so that the revenue budget reflects a realistic level of capital financing costs. The borrowing strategy therefore assumes a transfer £14m as at 31 March 2016 from the Revenue Support Fund to Capital Financing Reserve but no further transfers, this is consistent with the MTFS. The capital programme and the borrowing strategy also assume a prudent level of capital receipts.
- 5.13 The borrowing strategy for 2016-17 will be re-evaluated as and when better information becomes available on any of the key factors set out above or if new forms of finance are considered to finance specific projects. Any decision to take new external borrowing either to replace the existing debt that matures in 2016/17 or to finance additional capital expenditure will be assessed in the light of the best available information and will be explicitly approved.
- 5.14 The borrowing strategy for 2016-17 is set out in table 8 below, which shows the planned increase in external debt and whether this arises from a reduction in internal borrowing or changes in the Capital Financing Requirement. Total borrowing is set out in Appendix 9.

Table 8 - Borrowing Strategy 2016-17 : Change in External Debt

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Proposed new external debt	0	5,500	8,500	5,000	500
Debt maturities and reductions in lease finance	(200)	(4,600)			
Net increase/ (decrease) in external debt	(200)	900	8,500	5,000	500
(Reduction)/increase in internal borrowing	(1,158)	1,414	(2,000)	(440)	(1,483)
Reduction/(increase) in Capital Financing Requirement	1,349	(2,351)	(6,500)	(4,560)	983

Forecast Level of Internal Borrowing

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Total Internal Borrowing	8,007	9,421	7,421	6,981	5,498

Debt Rescheduling

5.15 Opportunities to restructure the existing debt have been reviewed. This has shown that the cost of debt repayment in terms of premiums incurred exceeds the savings in interest. Restructuring would not therefore generate any savings at the present time.

Policy on Borrowing in Advance of Need

5.16 For the purposes of clarity this strategy makes clear that the PCC will not borrow more than or in advance of needs, purely in order to profit from the investment of the extra sums borrowed. Any proposal to borrow in advance of need to minimise the costs of future borrowing requirements will be on the basis of a detailed business case and will require specific approval.

5.17 Treasury Management Limits on Activity

5.17.1 Interest Rate Exposures

Upper limit on fixed and variable interest rate exposures for 2016-17 to 2019-20 are:-

This indicator sets a limit for the exposure to change in interest rates.

	Upper Limit
Upper limit on fixed rate exposures – debt	100%
Upper limit on variable rate exposures – debt	30%

This means 70% to 100% of borrowing will be at rates fixed until the loan is repayable, while no more than 30% will be at variable rates and so liable to change at short notice. All of the variable rate borrowing will be internal borrowing.

5.17.2 Maturity Structure of Borrowing

Maturity Structure of Fixed Interest Rate Borrowing		
	Lower Limit	Upper Limit
	%	%
Under 12 Months	0	10
12 Months to 2 Years	0	15
2 years to 5 Years	0	25
5 Years to 10 Years	0	40
10 Years and Above	60	100

This indicator shows a maximum of 40% of the Commissioner's borrowing may be for periods of less than 10 years. The remaining debt will be for periods of 10 years or more.

5.18 The actual maturity profile of the PCC debt is provided in Appendix 9.

Municipal Bond Agency

5.19 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority intends to make use of this new source of borrowing as and when appropriate.

6 Annual Investment Strategy

6.1 The PCCs investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code").

6.2 The overall aims of the PCC's investment strategy are:

- to limit the risk of the loss of capital;
- ensure funds are always available to meet cash-flow requirements;
- to maximise investment returns consistent with the first two aims.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

6.3 The PCC's risk appetite can be characterised as follows:

- the PCC looks to invest in banks and building societies of a high credit quality and sets lending limits against each one;
- lending to other Local Authorities and Public Bodies can be undertaken;
- the PCC may lend to the Debt Management Office (central government), this lending is seen as having the highest level of security;
- the PCC may use Treasury Bills and Certificates of Deposit;
- the PCC may invest in money market funds and enhanced money market fund with a AAA/AAA(f) credit rating.

6.4 The PCC has two different mechanisms for investing surplus funds:

- The PCC's Investment Fund managed by the Treasurer - this fund is invested in fixed interest deposits and money market funds. The remit of the fund is contained at Appendix 2
- Very short term deposits varying from overnight to 3 months which are used to facilitate short term cash management.

6.5 The low level of return currently available for fixed term deposits has led to the consideration of a number of alternative investment approaches, these are set out in Appendix 4. The only options that meets all of the PCC's objectives is the use of "cash plus" funds and this type of investment will be an approved instrument within the 2016-17 Treasury Management Strategy.

6.6 The options of using either a property fund or a corporate bond fund require more detailed investigation and whilst they have not been rejected they are not included in the strategy at present.

Investment Strategy Principles

6.7 It should be borne in mind that it would be impossible for the PCC to mitigate all of the possible risks inherent in investing cash balances. Further economic or banking problems could impact on the security or returns achieved from the investment strategy.

6.8 In exceptional circumstances, the Treasurer will be empowered to invest in foreign currencies but only with the explicit approval of the PCC.

6.9 The investment strategy for the PCC Investment Fund is set out in Appendix 2. The investment fund will hold all internally managed cash investments with durations of more than 100 days. Short term deposits of less than 100 days will be managed separately. Specifically the performance benchmark of 3 month LIBID will not apply to short term deposits. Also, short term deposits do not require approval from the Treasurer (as set out in Treasury Management Practices).

Changes to the Regulation of the Banking Sector and the Removal of Implied Sovereign Support

6.10 As set out in the 2015/16 Treasury Management Strategy a number of changes to the regulations of the banking sector within the EU were implemented in 2015 financial year. As a result of these changes the rating agencies removed implied sovereign support from their ratings. This means that the sovereign ratings set out in Appendix 5 will not hold the same importance as before. Despite this change the Treasury Management Strategy will continue to maintain a minimum sovereign credit rating – see paragraph 6.14 below.

Creditworthiness Policy

6.11 The PCC will utilise a creditworthiness policy that:

- fully accounts for the ratings and outlook watches published by all three ratings agencies with a full understanding of what they reflect in the eyes of each agency;
- recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate;

- takes account of information that reflects the opinion of the market, such as “Credit Default Swaps”;
 - uses other information sources, for example, the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 6.12 To comply with the above policy the PCC will utilise a creditworthiness service supplied by its advisers which meets all of the requirements. When using this service the PCC will be aware that the ultimate responsibility for ensuring the creditworthiness of counterparties will lie with the PCC.
- 6.13 For ease of reference the current advisers approach uses colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the duration for investments. The PCC will therefore use counterparties within the durational bands set out in table 9.

Table 9 – Counterparty Durational Bands

Yellow	5 years *
Dark Pink	5 Years **
Light Pink	5 Years ***
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

* This category is for AAA rated Government debt or its equivalent

** This category is for enhanced money market funds with a credit score of 1.25

*** This category is for enhanced money market funds with a credit score of 1.5

- 6.14 The PCC has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
- 6.15 If Barclays, the PCC’s bankers, fall below the rating criteria set out below or they are removed from the list the threshold for new deposits will be reduced to £250,000 to allow the current account to operate in the short term. When using the durational bands set out above the PCC will also apply credit limits as set out in table 10 below. The proposed counter party list is set out in Appendix 6.

Table 10 - Counterparty Limits for Investment Fund and Short Term cash Deposits

Counterparty type	Minimum Credit Criteria/ Colour Band			Credit Limit
Banks				
Term Deposits with UK and Foreign Banks		Green		
	Fitch	Moodys	Standard and Poors	£15m
Overnight deposits UK and Foreign Banks	A	A2	A	
Building Societies				
UK Building Societies		Green		£6m
Public Bodies				
Central Government				
Debt Management Office (credit criteria relates to UK sovereign rating)		AA+		No limit
Local Government				
All Local Authorities, Fire Authorities and Police and Crime Commissioners		N/A		£15m
Money Market Funds including enhanced money market funds		AAA		£20m

6.16 The approved list of counterparties is formally reviewed at least weekly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

6.17 All additions, to the approved counterparty list will be approved by the Treasurer.

6.18 The DCLG classifies investments as either specified or non-specified. Specified investments are lower risk whereas non-specified investments are higher risk. To be a specified investment an investment must be:

- Sterling denominated
- For less than 365 days
- Be of high credit quality
- not deemed to be capital expenditure

6.19 Appendix 2 includes further details of the classifications. No more than the lower of £20m or 50% of the overall portfolio will be invested in non-specified investments.

Investment Return Expectations

6.20 Capita Asset Services have provided a detailed forecast for Bank of England (BoE) bank rate and market rates which is provided in Appendix 3. The BoE bank rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. BoE bank rate forecasts for financial year ends (March) are:

2016-17	0.75%
2017-18	1.25%
2018-19	1.75%

6.21 *Table 11 – Rates used to calculate interest receipts budget*

Forecast Rates for Budget Purposes (Interest receipts)	Average %			
	16-17	17-18	18-19	19-20
Short Term Cash	0.50	0.66	0.95	1.00
Devon and Cornwall Police	0.66	0.75	0.99	1.20
Investment Fund				

6.22 The economic data and commentary that underpins these forecasts is provided in Appendix 7. If the economy were to recover more quickly than forecast then the investment returns would be higher than included in the Medium Term Financial Strategy. Conversely if the pace of economic recovery is slower than forecast then returns, particularly in the later years of the Medium Term Financial Strategy, will be lower than forecast.

Performance

6.23 The benchmark for performance on the Investment fund will be the 3 month LIBID (London Interbank Bid Rate).

Investment Treasury Indicator

6.24 Upper limit for principal sums invested for period of over 364 days.

This indicator sets a limit on the level of investments that are held for more than 364 days.

The Treasury Management Strategy imposes the following controls on sums invested for more than 364 days:

Police and Crime Commissioner's Investment Fund - no more than the lesser of £20m or 50% of the Investment Fund may be invested for more than 364 days

The total for forecast investments of more than 3 month duration as at 31 March 2016 is £44m

Limits on investments to mature beyond:

31 March 2017	£45m
31 March 2018	£20m

7 Monitoring & Benchmarking

- 7.1 Income and expenditure will be monitored monthly to ascertain performance against the budget. Performance and changes in borrowing and lending will be reported regularly to the PCC through the Treasurer.
- 7.2 During 2016-17 the PCC will participate in the Capita Asset Services benchmarking club. The aim of this benchmarking will be to determine, whether, given the risk appetite of the PCC the rate of return on internally managed funds has been maximised.

8 Governance Structure

- 8.1 The governance arrangements for the Treasury Management Strategy are set out in Appendix 8.

9 Banking Arrangements

- 9.1 The PCC's bankers are Barclays PLC. In November 2015 an extension of the current contract for one year until 31 March 2017 was reviewed by JAC who recommended that the contract be extended.

10 Treasury Management Consultants

- 10.1 The PCC uses external treasury management advisors.
- 10.2 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. The PCC also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

11 Conclusion

- 11.1 The continuation of the low bank rate of 0.5% and changes to the regulation of the banking sector mean that 2016-17 will be another challenging year in terms of investment returns.
- 11.2 The nature of the PCC's debt means that no rescheduling or repayment is possible. The borrowing strategy is closely linked to the capital programme, prospects for capital receipts and the level of revenue reserves available for investment in capital projects. The borrowing strategy proposed is based on the assumption that the capital programme can be delivered and on a realistic assessment of available capital resources. This means that a prudent budget for the costs of capital financing has been included in the Medium term Financial Strategy.
- 11.3 This Strategy is compliant with all the relevant statutory and regulatory requirements including the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code, the Local Government Act 2003 and the Department for Communities and Local Government investment guidance.

Duncan Walton
Treasurer

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Appendices

1. MRP Policy
2. Objectives of the PCC's Investment Fund
3. Interest Rate Forecasts
4. Alternative Investment Strategies
5. Countries Approved for Investment
6. Police and Crime Commissioner for Devon and Cornwall - Approved List of Borrowers
7. Economic Background
8. Treasury Management Governance Arrangements
 - The role of the PCC Senior Management Team
 - The role of the Joint Audit Committee
 - The treasury management role of Treasurer (the section 151 officer)
9. External Borrowing

Minimum Revenue Provision Policy Statement 2016-17

DCLG Regulations have been issued which require The Police and Crime Commissioner to approve an MRP Statement in advance of each year. The Commissioner is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- Existing practice - MRP will follow the existing practice outlined in former CLG Regulations (Option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

For expenditure incurred after 1 April 2008 the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations (Option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Devon and Cornwall PCC's Investment Fund

Purpose

To invest cash balances to achieve best value in terms of return whilst giving primacy to the effective management and control of risk. This means that the security of the principal sums invested and the liquidity of funds will be given priority over yield.

Investment Strategy

1. Funds may be invested in:
 - fixed interest deposits with UK and Overseas banks and UK building societies;
 - the Debt Management Account Deposit Facility provided by central government;
 - pooled money market funds with either a constant net asset value or a variable net asset value;
 - certificates of deposit

A more detailed definition of approved investment is provided in Annex 3.

2. All investments to be with countries with a sovereign rating of AA- or above. Banks with a UK banking licence will be deemed to be rated according to the UK sovereign rating.
3. Funds to be invested only with counterparties on the approved list.
4. The fund will not invest directly in government bonds, foreign currency or international bonds. The exception to this being the investment in UK government gilts transferred to the Devon and Cornwall Investment Fund following the winding up of segregated fund managed by the external investment manager.
5. Investments for more than one year are classified as non-specified investments. A limit of £20m or 50% of the overall portfolio will be placed on the amount of the fund that can be invested for a period of more than 1 year.
6. The benchmark for performance will be the 3 months LIBID (London Inter Bank Bid Rate).
7. Investment decisions within the policy will be taken by the Treasurer.

Specified Investments	Non Specified Investments
Term deposits with banks and building societies for 365 days or less duration – minimum credit criteria green	Term deposits with banks and building societies for more than 365 days duration – minimum credit criteria green
Certificates of deposit for 365 days or less duration – minimum credit criteria green	
Term deposits with other local authorities for 365 days or less duration	Term deposits with other local authorities for 365 days or more duration
Money Market Funds – with a credit rating of AAA	
Enhanced money market funds – with a credit rating of AAAf	
UK government gilts	

Appendix 3

Interest Rate Forecasts (as at 20 Jan 2016)

	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
BANK RATE	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
3 month LIBID	0.52	0.50	0.50	0.60	0.80	0.90	1.00	1.10	1.30	1.40	1.50	1.60	1.80	1.90
6 month LIBID	0.66	0.70	0.70	0.80	0.90	1.00	1.20	1.30	1.50	1.60	1.70	1.80	2.00	2.20
12 month LIBID	0.98	1.00	1.00	1.10	1.20	1.30	1.50	1.60	1.80	1.90	2.00	2.10	2.30	2.40
5 yr PWLB	1.92	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10	3.20
10 yr PWLB	2.58	2.60	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.60	3.70
25 yr PWLB	3.36	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10	4.10
50 yr PWLB	3.18	3.20	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	3.90	4.00	4.00	4.00

Alternative Investments

Type of Investment	Comments
Cash Fund Managers (i.e investment managers who manage an institutions cash by investing according to an agreed manadate across a range of instruments – these are different from Money Market Funds).	Managers with cash/gilt mandates similar to the previous external fund manager find it difficult to provide good returns in the current market environment and for this reason it is not appropriate to seek an alternative cash fund manager.
Enhanced Cash Funds – these are similar to money market fund but the underlying deposits have a longer duration. As a result the value of the investment is more likely to vary as compared to money market funds but under certain conditions the returns can be higher than money market funds	These funds will be approved instruments within the 2016-17 Strategy
Exchange Traded Funds – are investment funds traded on stock exchanges, much like equities.	The value of these investments can go up or down dependent on market conditions. For this reason they are not appropriate for short term investments due to the level of risk. As the PCC's cash position cannot be forecast with certainty over the medium to long term and therefore these are not appropriate investments.
Equities	As exchange traded funds above.
Property funds	The value of property fund investments can go up or down dependent on market conditions. In addition there can be high entrance and exit costs. For this reason they must be seen as a medium to long term investment.
Corporate Bonds – longer dated instruments issued by financials and non-financial corporate bodies	These instruments can have higher returns than other investments, however the value of bonds can go up and down. The level of risk inherent in investing in individual corporate bonds does not match the PCC's investment strategy of putting security and liquidity before yield.
Corporate Bond Funds – invest in corporate bonds but diversify the risk by investing in a wide range of corporate bonds.	Corporate bond funds may be an appropriate investment for the PCC however more investigation is required particularly in terms of whether the funds meet legislative requirements in terms of use of derivatives.

Countries Approved for Investment (Fitch ratings, 20 Jan 2016)

AAA

- Australia
- Canada
- Denmark
- Germany
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Netherlands
- UK
- USA

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

DEVON AND CORNWALL POLICE - APPROVED LIST OF BORROWERS

DCPA Lending Limits			Capita Asset
	Counterparty £ millions	Group Limit	Services Classification
1	CLEARING BANKS & SUBSIDIARIES (GROUP Limit £) (term deposits and certificate of deposits)		
	BARCLAYS BANK-		
	FIBCA Account	12 *	12.25 Red
	Current Account	0.25	12.25 N/A
	HSBC BANK	12	12 Orange
	LLOYDS BANKING GROUP	12	12 Red
	ROYAL BANK OF SCOTLAND	12	12 Red
	SANTANDER	12	12 Red
	STANDARD CHARTERED	12	12 *NC
	NORDEA FINLAND	12	12 Orange
	SVENSKA HANDELSBANKEN	12	12 Orange
	TORONTO DOMINION BANK	12	12 Orange
	DEUTSCHE BANK	12	12 Orange
	RABOBANK	12	12 Orange
	NATIONAL AUSTRALIA BANK	12	12 Orange
	GOLDMAN SACHS INTERNATIONAL BANK	12	12 Green
* See Voluntary operational limits below			
2.	BUILDING SOCIETIES		
	NATIONWIDE	4	4 Red
3.	LOCAL AUTHORITIES		
		5	5 Yellow *NC
4.	DEBT MANAGEMENT ACCOUNT (CENTRAL GOVERNMENT)		
	DMA Deposit Facility (DMADF)	Unlimited	Yellow

Treasury Bills	Unlimited	Yellow
5. MONEY MARKET FUNDS		N/A
IGNIS – Sterling Liquidity 2	20	N/A
IGNIS – Short Duration Fund		Pink
Prime Rate – Sterling Liquidity Share Class 4	20	N/A
Prime Rate – Cash Plus Fund		Pink

Key to Sector Classification

Colour	Maximum Length of Deposit
Yellow	Up to 5 years
Purple	Up to 2 years
Blue (applies to nationalised or semi nationalised banks only)	Up to 1 year
Orange	Up to 1 year
Red	Up to 6 months
Green	Up to 3 months
Pink	To be used after agreement from a TM meeting
*NC Not classified by Capita Asset Services	Up to 1 year

Economic Background (Capita Asset Services, 20 Jan 2016)

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts (and also MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. An eventual world economic recovery will also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. rate is likely to go up both sooner and more strongly than Bank Rate in the UK. These increases will have corresponding effects in pushing up US Treasury and UK gilt yields. While there is normally a high degree of correlation between the two yields, we would expect to see a decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK is currently to the downside. Only time will tell just how long this current period of reasonably strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

We would, however, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to emerging market, geo-political and sovereign debt crisis developments.

Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens (bonds).
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Joint Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Appendix 9

Police and Crime Commissioner for Devon and Cornwall External Borrowing

Lender	Term Years	Maturity Date	Amount Borrowed £	Period Outstanding as at 31/03/2016 Years
PWLB	8	02/11/2016	4,500,000	0.59
PWLB	15	01/10/2025	2,000,000	9.51
PWLB	26	03/05/2029	1,697,070	13.10
PWLB	26	03/05/2029	168,930	13.10
PWLB	26	03/05/2029	461,600	13.10
PWLB	26	03/11/2029	2,000,000	13.60
PWLB	20	01/10/2030	2,000,000	14.51
PWLB	26	23/11/2030	2,500,000	14.66
PWLB	25	16/12/2034	2,500,000	18.72
PWLB	31	03/05/2036	6,200,000	20.10
PWLB	31	23/11/2036	2,000,000	20.66
PWLB	30	03/05/2037	4,750,000	21.10
PWLB	25	16/12/2039	4,000,000	23.73
			34,777,600	
Lease Finance			63,000	
Total Debt Finance			34,840,600	