



The Police and Crime Commissioner for Sussex

2025/26 Treasury Management Strategy Statement

Incorporating the Minimum Revenue Provision
Policy Statement and Annual Investment Strategy

26 March 2025

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1 INTRODUCTION

1.1 Background

The Police and Crime Commissioner for Sussex (PCC) is required to set a balanced budget each financial year, which means that planned spending matches available funding. A key part of the treasury management function is to ensure that cash flow supporting the budget is adequately planned, with cash being available to meet commitments when it is needed. Surplus monies are deposited in low-risk counterparties or instruments commensurate with the PCC's low risk appetite, with due consideration to security of capital, liquidity and rate of return.

The second main function of treasury management is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need, monitoring longer term cash flow planning to ensure that the PCC can meet 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, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

The contribution the treasury management function makes to the Sussex police fund is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The PCC's Chief Financial Officer is the financial adviser to the PCC as required under the Police Reform and Social Responsibility Act 2011 and has statutory responsibility to manage their financial affairs as set out in sections 112 and 114 of the Local Government Finance Act 1988, and the Accounts and Audit Regulations 2015.

For Treasury Management this includes:

- ensuring regularity, propriety and Value for Money (VfM) in the use of public funds;
 - advising the PCC on the robustness of the estimates and the adequacy of financial reserves;
 - securing the treasury management function, including loans and investments;
 - advising, in consultation with the Chief Executive on the safeguarding of assets, including risk management and insurance
-

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that the PCC fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This group has not engaged in any commercial investments and has no non-treasury investments.

1.2.2 Treasury Management Reporting

The PCC is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **A Treasury Management Strategy including prudential and treasury indicators and Capital Strategy** (this report).

The first and most important report is forward looking and covers:

- the capital plans, including prudential indicators;
 - a minimum revenue provision (MRP) policy showing how residual capital expenditure is charged to revenue over time;
 - the treasury management strategy which shows how the investments and borrowings are to be organised, including treasury indicators; and
 - an annual investment strategy stating the parameters on how investments are to be managed.
- The 2017 Prudential Code introduced a new requirement to produce an annual capital strategy as a high level corporate document dealing with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management, and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the PCC. The Capital Strategy has been prepared with the support of our expert treasury management advisers MFUG previously Link Group. This is presented at as a separate document at this link **[ADD IN WHEN PUBLISHED BUT IS APPENDIX B TO THE]**.

b. **Treasury Management Quarterly Report**

This is primarily a progress report and will update on the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting objectives or whether any policies require revision.

c. **An annual treasury report**

This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the PCC. This role is undertaken by the Joint Audit Committee.

1.4 Treasury Management Strategy Statement (TMSS) for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

- the capital expenditure plans and associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and 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
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, MHCLG (was DLUHC) Investment Guidance , MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

In accordance with the CIPFA Code and MHCLG Guidance, a revised Treasury Management Strategy Statement can be approved by the Police and Crime Commissioner and implemented at any time during the financial year.

1.5 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that individuals with responsibility for treasury management receive adequate training in treasury management. This especially applies to those responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board members.
- Require treasury management officers and board members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The training needs of treasury management officers and the Joint Audit Committee members are periodically reviewed with training arranged as required.

1.6 Treasury management consultants

The PCC uses MUFG Corporate Markets as its external treasury management advisors.

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 advisors. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It 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.

1.7 Links to other Strategies

This strategy links with the [PCC Medium Term Financial Strategy 2025-29](#) and others including the Estates Stargey, Joint Transport Strategy and IT Strategy.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2028/29 AND MRP STATEMENT

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist understanding and confirm capital expenditure plans are prudent, affordable and sustainable. A full table of prudential code indicators to 2028/29 is included in Appendix 5.7.

2.1 Capital expenditure and financing

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of the current budget cycle.

The following table summarises the four-year capital and investment programme approved by the PCC:

Capital & Investment Plans	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total £000
Information Technology - new	3,844	2,402	991	991	8,228
Information Technology - Existing	600	0	0	164	764
Business Led IT Projects (ERP)	0	0	0	0	0
Fleet Replacement and Equipment	7,824	7,645	7,712	8,259	31,440
Estate Strategy	9,707	20,522	11,804	18,020	60,053
Estates BAU	3,467	3,708	2,136	2,000	11,311
Operational Equipment	652	612	562	525	2,351
Cost of Change	1,944	0	0	0	1,944
Total MTFs Capital & Investment Programme	28,038	34,889	23,205	29,959	116,091

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which themselves already include borrowing instruments.

The table below summarises how the capital expenditure plans are being financed, either by capital or revenue resources. Any shortfall of resources (Net financing need) results in a potential requirement to borrow.

Capital Funding Summary	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total £000
Government & Other Grants	0	0	0	0	0
Reserve DDaT	623	0	0	0	623
Reserve Cost of Change	1,944	0	0	0	1,944
Reserve SSRP	274	235	234	198	941
Reserve SES	3,000	0	0	0	3,000
Revenue Contributions TMS Receipts	2,300	600	500	400	3,800
Capital Receipts	8,850	335	2,230	10,694	22,109
Borrowing Long Term Assets - BAU	1,324	3,708	1,775	1,450	8,257
Borrowing Short Term Assets	2,832	1,933	0	0	4,765
Borrowing Estates Strategy	0	20,187	9,575	7,326	37,088
Revenue Contribution	6,891	7,891	8,891	9,891	33,564
Total Capital and Investment Programme	28,038	34,889	23,205	29,959	116,091

2.2 The PCC's borrowing need (the Capital Financing Requirement)

This prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's indebtedness and underlying borrowing need. Any new capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the PCC is not required to separately borrow for these schemes. The PCC currently has £12m of such schemes within the CFR.

The PCC is asked to approve the CFR projections below:

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Capital Financing Requirement						
Total CFR	26,508	33,545	33,566	53,953	58,969	61,620
Movement in CFR	(3,830)	7,037	(138)	20,387	5,016	2,651
Movement in CFR represented by						
Net financing need for the year (above)	(10,800)	3,570	(4,265)	14,483	(1,442)	(3,591)
Less MRP	6,970	3,467	4,127	5,904	6,458	6,242
Movement in CFR	(3,830)	7,037	(138)	20,387	5,016	2,651

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
External borrowing						
Treasury Management	0	8,056	4,156	25,828	11,350	8,776

2.3 Minimum Revenue Provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

The PCC is required to calculate a prudent provision of MRP in addition to any interest payable on outstanding loans to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

Minimum Revenue Provision (MRP) is therefore an annual charge made to the revenue account which reflects the minimum amount set aside to pay off capital expenditure.

The MHCLG is also finalising a consultation on amending MRP regulations/guidance for England. The latest information is that any changes will take effect from 2025/26 at the earliest. The PCC will comply with the MRP regulations and any changes that are forthcoming after the finalisation of the consultation as per the Code. The PCC does not either use capital receipts to reduce the MRP or does not exclude any debt from the capital financing requirement calculation.

In addition, the PCC is also able to make additional voluntary payments, known as Voluntary Revenue Provision (VRP). The PCC for Sussex has not made any VRP payments to date and is not planning to make any VRP in the foreseeable future.

In guidance issued under section 21(1A) of the Local Government Act 2003, the Secretary of State recommends that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council or equivalent level for approval. In our case this is the PCC.

The MRP Guidance (first released in 2008/09 and revised in 2024) also gave the flexibility of using one of four options or a mix of these options if the authority considers it appropriate to do so, to calculate a prudent level of MRP.

The four MRP options available are:

- Option 1: 4% reducing balance - Regulatory Method (also known as the Existing practice method)
- Option 2: 4% reducing balance - CFR Method
- **Option 3: Asset Life Method (straight line)**
- Option 4: Asset life Method (Annuity)

Options 1 and 2 were intended only for Government-supported borrowing and these options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

Options 3 and 4 were meant to be used for all self-financed borrowing.

The Asset Life method (straight line) has been adopted by the PCC. This method provides for debt repayment over the life of the asset that has been funded from the borrowing.

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred.

Capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

The PCC will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

The revised MHCLG MRP Guidance (2018) has widened the scope to include non-financial/non-treasury investments and to limit the scope of some of the recent MRP policy approaches. These changes will not have any impact on the PCC's MRP calculations or current approach.

The PCC approves an **MRP policy statement** in advance of each financial year. The 2025/26 statement was approved on 10 February 2025 in the Council Tax Precept and Revenue and Capital 2025/26 report at the following link:

<https://www.sussex-pcc.gov.uk/about/how-we-work/pcc-decisions/decisions/032025-sussex-pcc-council-tax-precept-revenue-and-capital-budgets-202526-and-medium-term-financial-strategy-key-decision/>

The annual MRP statement indicates how the PCC intends to discharge their duty to make a prudent provision for MRP in the forthcoming financial year. A prudent provision 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.

The PCC approved 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:

- **Based on CFR** – MRP will be based on the CFR (option 2)

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

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

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

Repayments included in annual PFI or finance leases are applied as MRP.

The MRP statement to 2028/29

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
IFRS 16 - Leases	0	4,113	3,218	2,315	1,450	1,056
PWLB Original Loan	0	0	0	0	0	0
External Borrowing	12,648	19,588	21,995	44,493	51,945	56,385
Internal Borrowing	2,273	1,705	1,136	568	0	0
Cumulative Debt Outstanding at 31 March	14,921	25,406	26,349	47,376	53,395	57,441
MRP - PFI	1,153	976	963	1,149	1,595	1,628
MRP - Finance Lease	34	37	39	42	45	48
MRP - IFRS 16 Lease	0	916	895	903	865	395
MRP - PWLB Original Loan	0	0	0	0	0	0
MRP - External Borrowing	5,214	1,117	1,749	3,331	3,898	4,337
MRP - Internal Borrowing	568	568	568	568	568	0
Total MRP	0	4,113	3,218	2,315	1,450	1,056

MRP Overpayments - Under the MRP guidance, any charges more than the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. For these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Up until the 31 March 2024, the PCC has made no VRP overpayments.

2.4 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

2.5 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (asset sales etc.).

Estimates of the year end balances and anticipated cash flow balances

Year End Resource	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Reserves	53,449	61,579	60,184	60,184	60,405	60,632
Capital receipts	0	0	0	0	0	0
Provisions	4,312	4,225	4,225	4,225	4,225	4,225
Total core funds	57,761	65,804	64,409	64,409	64,630	64,857
Working capital	(23,334)	(20,951)	(16,551)	(18,064)	(19,497)	(19,497)
Under/(over) borrowing	(3,393)	(3,042)	(3,042)	(2,080)	(1,238)	(1,078)
Expected investments	31,034	41,811	44,816	44,265	43,894	44,282

Reserves balances are explained in full within the medium term Financial Strategy 2025-29 – see the MUFU Corporate Markets here: <https://www.sussex-pcc.gov.uk/media/8616/5-appendix-1-sussex-pcc-mtfs-25-29-10022025-final.pdf>

2.6 Affordability prudential indicators

The previous sections set out the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The following indicators are approved by the PCC:

2.7 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs), against the net revenue stream.

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Financing costs / Net revenue stream	1.14%	1.38%	1.33%	1.32%	1.28%	1.27%

The estimates of financing costs include current commitments and investment proposals in the approved budget report for 2025/26. The apparent percentage decrease in financing costs is due to the increasing forecast for net revenue streams due to increasing precept income assumptions. Financing costs remain stable over the period.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the PCC. The treasury management function ensures that the PCC's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the PCC's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as of 31 March 2024 and for the position as at 31 January 2025 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual 31/03/2024 £000	actual 31/03/2024 %	current 31/01/2025 £000	current 31/01/2025 %
Treasury investments				
Banks	31,000	69%	21,000	44%
Local Authorities	0	0%	10,000	20%
Money Market Funds	14,200	31%	17,200	36%
Total managed in house	45,200	100%	48,200	100%
Total managed externally	0	0%	0	0%
Total treasury investments	45,200	100%	48,200	100%
Treasury external borrowing				
PWLB	12,648	100%	12,050	100%
Total external borrowing	12,648	100%	12,050	100%
Net treasury investments / (borrowing)	32,552		36,150	

The PCC's debt portfolio position at 31 March 2024, with forward projections are summarised below. The table shows the gross actual external debt against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
External Debt						
Debt at 1 April	12,648	19,588	21,995	44,493	51,945	56,385
Expected change in Debt	(5,214)	6,939	2,407	22,497	7,452	4,439
Other long-term liabilities (OLTL)	10,467	9,492	8,529	7,380	5,785	4,157
Actual gross debt at 31 March	23,115	29,080	30,524	51,873	57,730	60,542
The Capital Financing Requirement (CFR)	26,508	33,545	33,566	53,953	58,969	61,620
Under / (over) borrowing	3,393	4,464	3,042	2,080	1,238	1,078
	12.80%	13.31%	9.06%	3.85%	2.10%	1.75%

As a key indicator the PCC needs to ensure that gross debt does not, except in the short term or exceptional circumstances, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

Current borrowing does not exceed the CFR with the majority relating to other long term liabilities, principally a PFI contract repayment. In addition, there are plans for long term PWLB loans of £72.437m (of which £14.271m is already in place).

The Chief Finance Officer confirms the PCC is not borrowing for revenue purposes. It is not currently cost effective to repay the PWLB loan debt or the financing contained within the PFI agreement.

The Chief Finance Officer reports that the PCC complied with this prudential indicator in the current year 2024/25 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and proposed revisions to the capital programme contained in the approved 2025/26 budget report.

This is subject to regular review and will be considered when economic circumstances make it viable to repay the PWLB loan.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the estimate of what we expect to achieve within the authorised limit. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. It has been adjusted with IFRS 16 Leases to reflect the leases liability.

Operational boundary	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
PFI long term liability	10,467	9,492	8,529	7,380	5,785	4,157
Finance lease liability	472	436	396	354	310	262
IFRS 16 Lease	0	1,708	926	607	410	330
PWLB Original Loan	0	0	0	0	0	0
External Borrowing liability	12,648	19,588	21,995	44,493	51,945	56,385
Internal Borrowing liability	2,921	2,320	1,720	1,119	518	486
Additional external debt	3,977	5,032	5,035	8,093	8,845	9,243
Total Operational Boundary	30,485	38,576	38,601	62,046	67,814	70,863
CFR	28,518	33,545	33,566	53,953	58,969	61,620

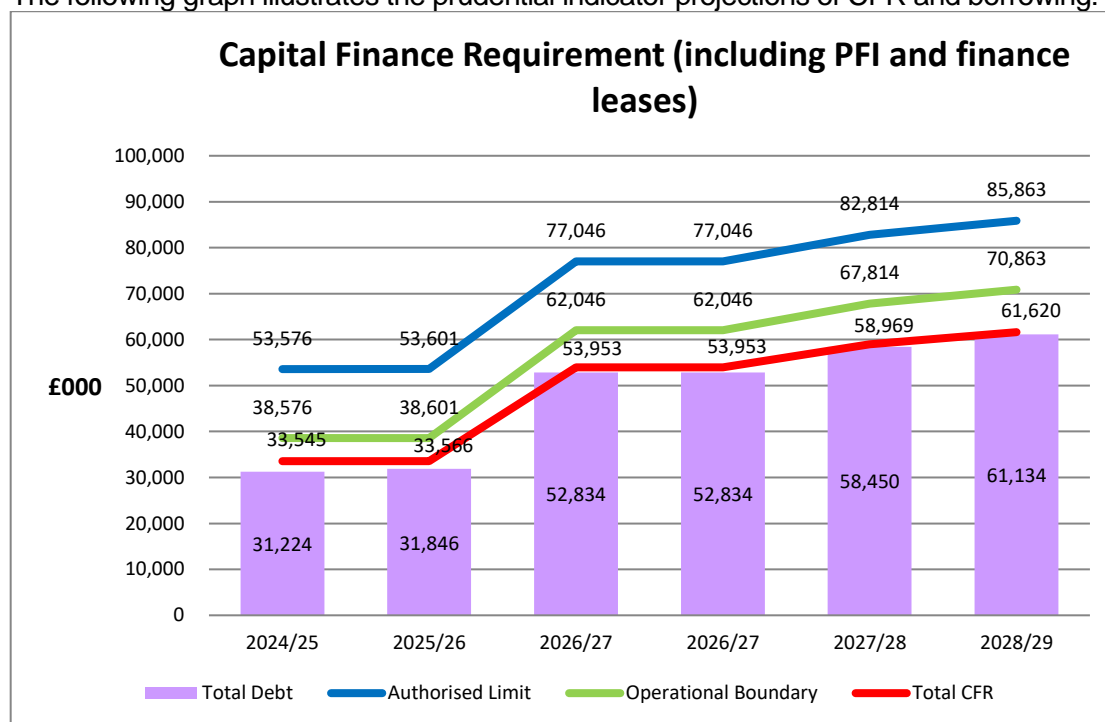
The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised.

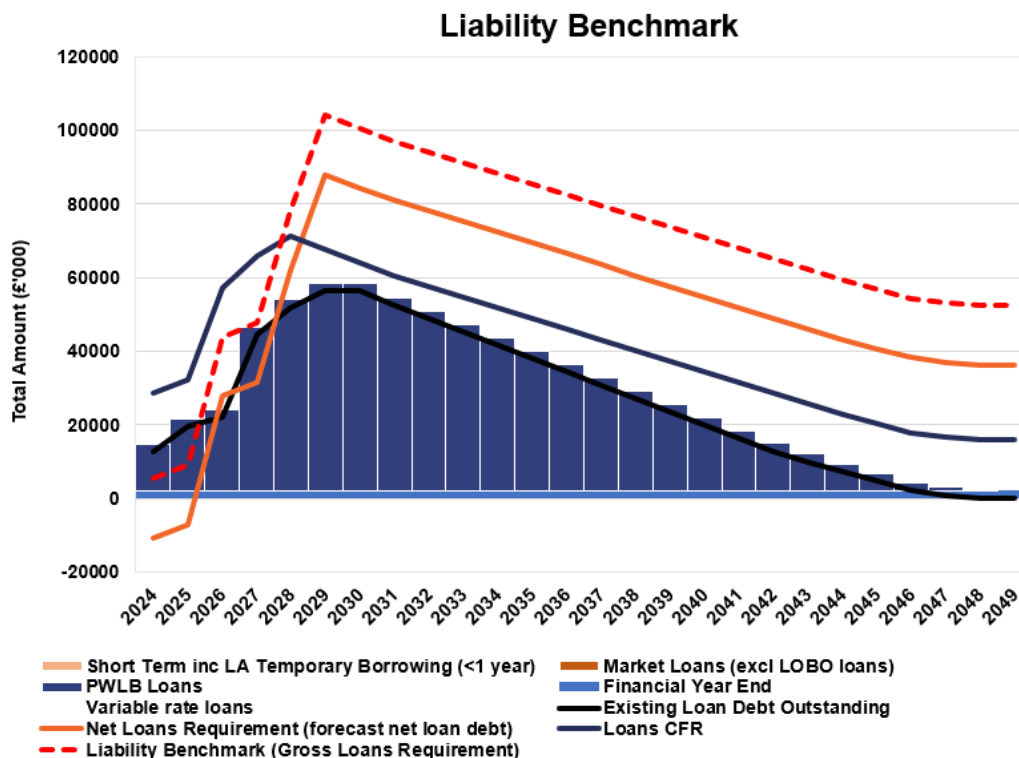
The following table illustrates the authorised limits approved by the PCC with a breakdown of how they were composed:

Authorised limit	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
PFI long term liability	10,467	9,492	8,529	7,380	5,785	4,157
Finance lease liability	472	436	396	354	310	262
IFRS 16 Lease	0	1,708	926	607	410	330
PWLB Original Loan	0	0	0	0	0	0
External Borrowing liability	12,648	19,588	21,995	44,493	51,945	56,385
Internal Borrowing liability	2,921	2,320	1,720	1,119	518	486
Additional external debt	3,977	5,032	5,035	8,093	8,845	9,243
Additional debt contingency	15,000	15,000	15,000	15,000	15,000	15,000
Authorised Limit	45,485	53,576	53,601	77,046	82,814	85,863

The following graph illustrates the prudential indicator projections of CFR and borrowing:



The following graph illustrates the liability benchmark:



The red line that is at the top is the Sussex Loan requirement, the orange line is the Net Loan requirement, the blue line is the PCC CFR and the "Existing Loan debt outstanding" is the black line at the bottom, so it shows that our projected debt will be below the projected CFR.

3.3 Prospects for interest rates

The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 11 November 2024 (and subsequently updated them on 10 February 2025 following the 06 February 2025 MPC meeting). These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

A more detailed interest rate forecast and economic outlook for the years ahead from MUFG Corporate Markets are set out in appendices 5.1 and 5.2. This advice is used in assessing borrowing and investment decisions.

3.4 Borrowing strategy

The PCC is currently maintaining a marginal 'under-borrowed' position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the PCC Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rates cuts arise.

Against this background and the risks within the economic forecast, a prudent approach will be taken with the 2025/26 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be presented to the PCC before any decisions are made.

The PCC's policy towards external borrowing in 2025/26 is:

- New Prudential Borrowing in line with the Capital Programme and Prudential Indicators, subject to further reviews in year requiring formal amendment to the TMSS
- At any one time short-term borrowing up to a maximum of £15m can be borrowed to cover cash flow shortages

There is no counterparty risk associated with borrowing, except that associated with money laundering. Therefore the approved institutions for short-term borrowing will be:

- Borrowing from other local authorities
- Borrowing from the money markets (any FCA approved institution)
- Borrowing from any company wholly owned by the UK Government

3.5 Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
 - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
 - Maturity structure of borrowing. These gross limits are set to reduce the PCC's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.
-

The following treasury indicators and limits are approved by the PCC:

	2025/26	2026/27	2027/28	2028/29
Interest rate exposures	Upper	Upper	Upper	Upper
Limits on fixed interest rates:				
· Debt only	100%	100%	100%	100%
· Investments only	100%	100%	100%	100%
Limits on variable interest rates				
· Debt only	25%	25%	25%	25%
· Investments only	100%	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2025/26				
		Lower	Upper	
Under 12 months		0%	100%	
12 months to 2 years		0%	100%	
2 to 5 years		0%	100%	
5 to 10 years		0%	100%	
Over 10 years		0%	100%	
Maturity structure of variable interest rate borrowing 2025/26				
		Lower	Upper	
Under 12 months		0%	0%	
12 months to 2 years		0%	0%	
2 to 5 years		0%	0%	
5 to 10 years		0%	0%	
Over 10 years		0%	0%	

3.6 Policy on borrowing in advance of need

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 decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 Debt rescheduling/repayment

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

As short term borrowing rates may be cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt or using cash that is currently invested. However, any savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The rationale for rescheduling or repayment to take place would be one or more of the following:

- * the generation of cash savings and / or discounted cash flow savings;
- * savings in risk adjusted interest costs
- * rebalancing the interest rate structure of the debt portfolio
- * helping to fulfil the treasury strategy;
- * enhance the balance of the portfolio (amend the maturity profile of the debt portfolio and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

The PWLB allows local authorities to repay loans early and either pay a premium or obtain a discount according to a formula based on current interest rates.

Rescheduling of current borrowing in our debt portfolio is highly unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. In addition to that, the interest rate of 1.54% that was obtained in December 21 is very competitive and there will be a need to fund the Estates Strategy soon.

All borrowing, rescheduling and repayment activity will be reported to the PCC for approval in advance.

3.8 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.9 UK Municipal Bond Agency

The UK Municipal Bonds Agency (UKMBA) provides loans to UK local authorities to fund capital expenditure, essential projects such as schools, care homes, housing, recycling centres, energy from waste plants and infrastructure. With 56 local authorities and the Local Government Association as shareholders, the UKMBA is owned by local government for local government.

The UKMBA provides funding through three lending programmes:

- Proportionally guaranteed, pooled loans of £1 million or more for maturities greater than one year.
- Standalone loans to a single local authority for £250 million or more for maturities greater than one year. These loans are outside of the proportional guarantee and are guaranteed solely by the borrower, who must obtain an external credit rating from one or more of the major credit rating agencies.
- Short term, pooled loans, outside of the proportional guarantee for maturities of less than one year.

This may provide future opportunity for the PCC to consider use of this new source of borrowing as and when appropriate. Further information on the UKMBA can be found at this MUFG Corporate Markets <https://ukmba.org/local-authorities/>

3.10 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bonds Agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This strategy deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. We must have regard to these Codes of Practice when preparing the Treasury Management Strategy Statement and Capital Strategy, and also related reports during the financial year, which are taken to the PCC for approval. This report fully meets those requirements.

The revised Treasury Management code requires an authority to implement the following:

- **adopt a debt liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of 10 years, with material differences between the liability benchmark and actual loans to be explained.
- **long term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.
- **pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.
- amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council.
- **Quarterly Reporting to the JAC Committee** includes prudential indicators. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to the PCC and should be reported as part of the authority’s integrated revenue, capital and balance sheet monitoring.
- **environmental, social and governance (ESG)** issues to be addressed within an authority’s treasury management policies and practices (TMP1). *(This area is under further development by CIPFA).*

The PCC’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
 - CIPFA Treasury Management Guidance Notes 2021
-

The PCC's investment priorities will be security of the principle first, liquidity second, then yield (return). The PCC will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the PCC's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
 2. **Other information:** ratings will not be the sole determinant of the quality of an institution; 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. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the PCC will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
 3. **Other information sources** used will include 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.
 4. This authority has defined the list of **types of investment instruments** that the Treasury Management Team are authorised to use. There are two lists in appendix 5.3 under the categories of 'specified' and 'non-specified' investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
 5. **Non-specified investments limit.** The PCC has determined that it will set a limit to the maximum total exposure of the total treasury management investment portfolio to non-specified treasury management investments as being 25% of the total investment portfolio (see paragraph 4.2).
 6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the criteria in paragraph 4.2.
 7. **Transaction limits** are set for each type of investment in appendix 5.3.
 8. The PCC will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.5).
-

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 4.2).
10. This PCC has engaged **external consultants** (see paragraph 1.6) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **Sterling**.
12. As a result of the change in accounting standards for 2024/25 under **IFRS 9** – Financial Instruments, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018 MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Government.
13. **IFRS16** - Leasing. The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year.

The major change is that under IFRS 16 there will no longer be any distinction between operating and finance leases in the financial statements of lessees.

Currently, local authorities account for an item as an operating lease if most of the risks and rewards have not transferred to them. In this case, they simply record a rental expense on a straight-line basis over the lease term, with no long-term asset or liability recorded. This accounting treatment will cease to exist, except in the case of low-value items, or for short-term leases (under 12 months).

This means that local authorities will be required to include a right-of-use asset and an equivalent liability, at the present value of lease payments. The current calculation of the right to use for the Sussex PCC is £3.22m and therefore a lease liability of £3.22m

For many local authorities, this will mean that a significant amount of assets and liabilities that were previously not recorded and shown only in the lease commitments disclosure note will now be included in the statement of financial position.

The standard has no impact on the actual cash flows of the Sussex PCC. However the standard requires the capitalisation of £3.22m, and subsequent depreciation of costs is circa £0.793m for 2025/26 (that are currently expenses as paid which impacts disclosures of cash flows within the cash flow statement). The amounts currently expensed as operating cash outflows which will instead be capitalised are presented as financing cash outflows.

The implementation of the IFRS 16 lease accounting standard in April will increase the level of assets and liabilities (circa £3.22m), therefore increases will be required for the capital finance requirement, the operational boundary, the authorised limit and the ratio of financing costs to net revenue stream.

The re-measurement of lease liabilities for changes in inflation and the expected term will count as capital expenditure soon. The capital programme budget will not need to be adjusted for the estimated cost of this expenditure in 2025/26 as the current budgets for Leases will be transferred to the MRP Budget for 2025/26.

In summary, IFRS16 is expected to impact the following treasury management and prudential indicators:

- **Authorised Limit:** as this includes borrowing and long-term liabilities (the lease liability)
- **Operational Boundary:** as this includes borrowing and long-term liabilities (the lease liability)
- **Actual external debt at year end:** as this includes borrowing and long-term liabilities (the lease liability)
- **Capital expenditure:** will need to include the right of use asset additions for future leases agreements.
- **Capital Financing Requirement:** includes the right of use asset addition less MRP
- **Gross debt and the Capital Financing Requirement:** gross borrowing will include long-term liabilities (the lease liability), and the CFR will include the right of use asset additions less MRP
- **Financing costs to net revenue stream:** interest payable element of the lease rental and MRP will be impacted

The PCC will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.6). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria are updated from last year in respect of IFRS 16.

4.2 Creditworthiness policy

The primary principle governing the PCC's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the PCC will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the PCC's prudential indicators covering the maximum principal sums invested.

The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to PCC for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the PCC may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the MUFG Corporate Markets our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum PCC criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

- **Banks 1** - good credit quality – the PCC will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA- or equivalent from at least one of the credit rating agencies; and
 - iii. have a minimum credit rating of F1 Short Term and A- Long Term Fitch or equivalent from at least one of the credit rating agencies; and
 - iv. Investments will include term deposits, call accounts, notice accounts and CD's (Certificates of Deposit).
 - **Banks 2** – Part nationalised UK banks – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or meets the ratings in Banks 1 above.
 - **Banks 3** – Nat West Bank – The PCC's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - **Bank subsidiary and treasury operation** – The PCC will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
 - **Building societies** – The PCC will use all societies which meet the ratings for Banks 1 outlined above.
 - **Money market funds (MMFs)** – AAA **CNAV** (Constant Net Asset Value) money market funds asset over £1bn limited to £10m or 0.5% of the fund's net asset size (per fund).
 - **Money market funds (MMFs)** – AAA Government backed **CNAV** money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Money Market Funds (MMFs)** – AAA **LVNAV** (Low Volatility Net Asset Value) money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Money Market Funds (MMFs)** – AAA **VNAV** (Variable Net Asset Value) money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Ultra-Short Dated Bond Funds with a credit rating of at least 1.25** – AAA funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
-

- **Ultra-Short Dated Bond Funds with a credit rating of at least 1.50** – AAA funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
- **UK Government** – including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF)
- **Local Authorities**, parish councils and PCC's – Local Authorities do not have a credit rating. Section 6 of the Local Government Act states that Local Authorities have the power to borrow and provides the statutory protection to lenders to local authorities.
- **Supranational institutions**
- **Corporate Bonds and Pooled Funds** – Corporate Bonds and Collective Investment Schemes (Pooled Funds) will be considered as investment tools, enabling the PCC to diversify the investment portfolio away from the banking sector and provide the potential for enhanced returns. Inclusion is on the explicit understanding that approval is required from the PCC before use of such investments.
- **Longer-term Investments (greater than one year)** – Longer-term deposits up to a maximum of two years, with **UK domiciled banks** and/or **multilateral development banks** (five years for **local authorities** and other **PCC's**) can be placed with explicit approval from the PCC in consultation with the Chief Finance Officer. The PCC has placed a maximum limit for principal sums invested for over one year as £20m.

A limit of 25% will be applied to the use of non-specified investments.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the PCC's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above.

Sector limits will be monitored regularly for appropriateness.

In addition specific limits over and above individual counterparty limits, for which specified investments may be placed up to, will be designated as follows:

- Maximum amount **per banking group: £20m**
- Maximum amount invested in **UK Building Societies: £10m**
- Maximum % invested in **UK domiciled institutions: 100%**
- Maximum total investments for **non-UK countries: £40m**
- Maximum amount invested per **individual non-UK country: £10m**
- Maximum total amount invested **for over one year: £20m**

The full criteria proposed for specified and non-specified investments are shown in Appendix 5.3 for approval.

4.3 Credit Rating Methodology

The rating element of our own credit assessment process focuses on the Short and Long Term ratings of an institution.

Use of additional information other than credit ratings. Additional requirements under the Code require the PCC to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The full criteria for Specified and Non-Specified investments including time and monetary limits for institutions on the PCC's counterparty list are detailed in Appendix 5.3.

Creditworthiness. Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the PCC will not set a minimum rating for the UK.

CDS prices. Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

4.4 Other limits

Due care will be taken to consider the exposure of the PCC's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified treasury management investment limit.** The PCC has determined that it will limit the maximum total exposure of treasury management investments to non-specified investments as being 25% of the total treasury management investment portfolio.
- b) **Country limit.** The PCC has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** (or equivalent) from at least one of the three credit rating agencies. The list of countries that qualify using this credit criteria as the time of writing this report are shown in Appendix 5.4. This list will be added to, or deducted from, by the Chief Finance Officer should ratings change in accordance with this policy.

4.5 Investment strategy

In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods but they do tie up funds for longer.

The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required to manage the variability of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.5%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the PCC's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The treasury indicator limits approved by the PCC are as follows: -

Maximum principal sums invested > 365 days				
	2025/26	2026/27	2027/28	2028/29
Principal sums invested > 365 days	£5m	£5m	£5m	£5m
Maximum % investment longer than 1 year	25%	25%	25%	25%
Current investments as at 31/01/2025 in excess of 1 year maturing in each year	£0m	£0m	£0m	£0m

For its cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Approved brokers – Investments arranged via the London money market will be made through approved brokers. The proposed list of approved brokers for 2025/26 comprises:

- MUFG Corporate Markets Trustee Arrangement (via Pooled Trust Account)
- King and Shaxson Limited
- Tradition (UK) Ltd
- Martin Brokers Group Limited
- ICAP Securities Limited
- Tullett Prebon Group Limited

4.6 Investment performance / risk benchmarking

The PCC will use an investment benchmark to assess the investment performance of its investment portfolio of overnight SONIA rates.

4.7 End of year investment report

At the end of the financial year, the PCC will report on its investment activity as part of its Annual Treasury Report.

5 APPENDICES

- 5.1. Interest rate forecasts
 - 5.2. Economic background
 - 5.3. Treasury management practice 1 – credit and counterparty risk management
 - 5.4. Approved countries for investments
 - 5.5. Treasury management scheme of delegation
 - 5.6. The treasury management role of the section 151 officer
 - 5.7. Prudential Code Indicators to 2028/29
 - 5.8. Treasury Management Practice Notes (TMP's)
 - 5.9. Glossary
-

5.1 APPENDIX: Interest Rate Forecasts 2025 – 2028

PWLB forecasts shown below are based on PWLB certainty rates (the standard rate minus 20bps) which has been accessible to most authorities since 1 November 2012.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

5.2 APPENDIX: Economic Background (to 12th December 2024)

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump’s inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank’s August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8,304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any

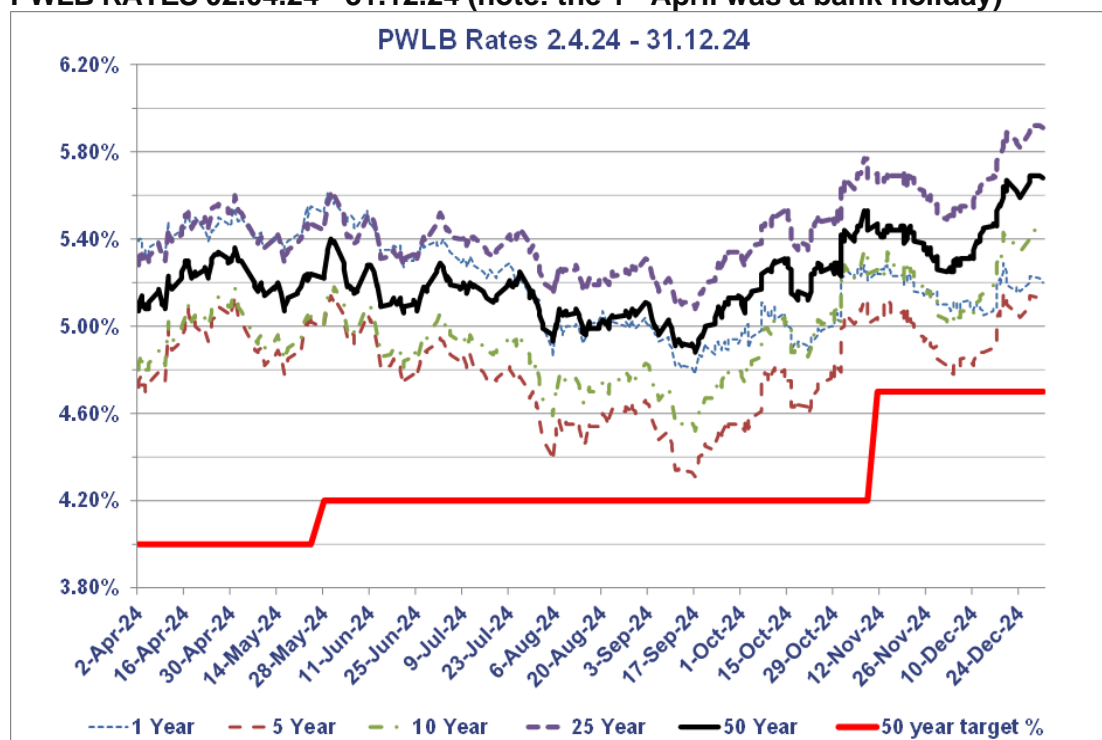
further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024, 6 February 2025

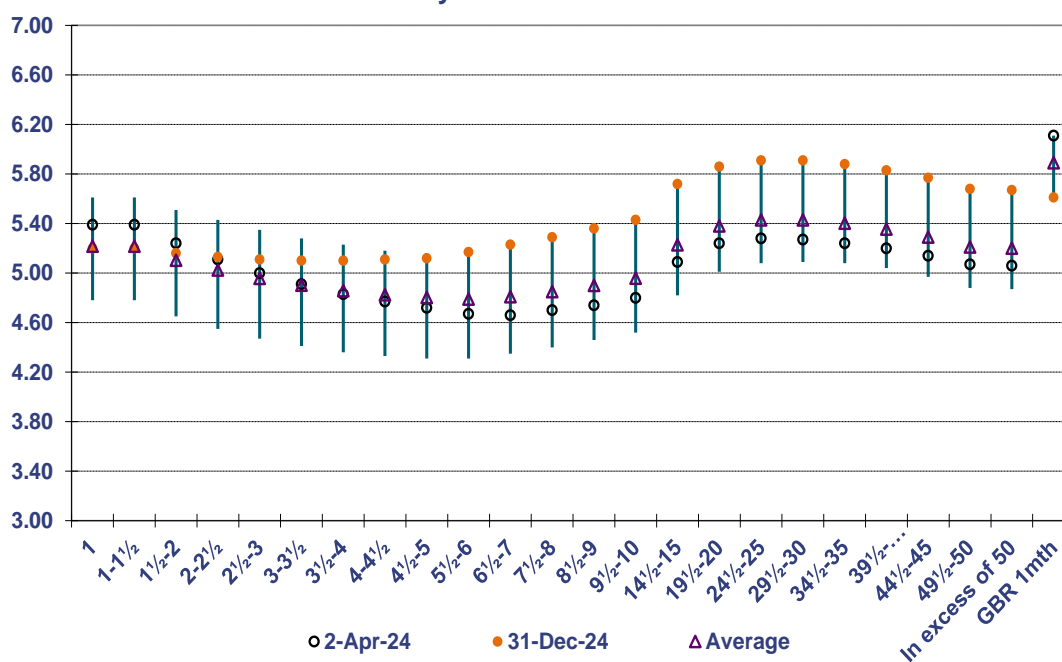
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.
- At its meeting ending on 5 February 2025, the MPC voted by a majority of 7-2 to reduce Bank Rate by 0.25 percentage points, to 4.5%. Two members preferred to reduce Bank Rate by 0.5 percentage points, to 4.25%

In the chart below, despite a considerable gilt market rally in mid-September, rates finished the period under review higher.

PWLB RATES 02.04.24 - 31.12.24 (note: the 1st April was a bank holiday)



PWLB Certainty Rate Variations 2.4.24 to 31.12.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 31.12.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

MUFG CORPORATE MARKETS INTEREST RATE FORECAST

- Our last interest rate forecast update was undertaken on 11 November, in the wake of the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November.
- In the interim period, there has been some general concern over the robustness of the Chancellor's spending policies, the impact of the various tariff policies of President Trump on global inflation, whilst only last week the Bank of England provided forecasts for the CPI measure of inflation to jump to 3.7% in Q3 2025 before falling below the 2% inflation target – albeit only in three years' time.
- Also last week, the Bank of England's Monetary Policy Committee voted 7-2 to cut Bank Rate from 4.75% to 4.5%. The vote was a split vote, with seven members voting for the 25bps cut, but Dhingra and Mann voting for a 50bps cut. Governor Bailey confirmed any further easing in monetary policy would reflect a *gradual* and *careful* approach.

- Moreover, the Bank set out a distinctly gloomy backdrop for the economy, with GDP expected to grow only 0.75% in 2025 before improving to 1.5% in 2026 and 2027 respectively.
- Overall, although January proved particularly volatile from a gilt market perspective, our previous forecast has remained resilient. The MPC did cut its Bank Rate to 4.5% as forecast, the 5-year PWLB Certainty Rate is exactly at our previous forecast level for Q1 2025, whilst the 10-, 25- and 50-years' PWLB Certainty Rates are only slightly higher than our previous Q1 2025 forecast.
- Accordingly, we have not felt it necessary to make any material changes to our forecast. Having said that, we acknowledge there may be a presentational problem for the Bank to cut rates in Q3 2025 when inflation is at its peak (based on their forecast), so we anticipate a further rate cut in May but then a pause before further rate cuts are made at the back end of 2025 and in 2026.
- Additionally, with there being a fair degree of uncertainty over how tariff policies will evolve not just in the US, but globally, we have lifted our PWLB forecasts by some 20-30bps in some areas. We will also take note of what the Chancellor says when considering the Office for Budget Responsibility's forecast updates on 25 March, and the budgetary headroom that remains.
- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB borrowing	Current borrowing rates as at 10.02.25 p.m. %	Target borrowing rate now (end of Q4 2026) %	Target borrowing rate previous (end of Q4 2026) %
5 years	4.90	4.40	4.20
10 years	5.28	4.70	4.40
25 years	5.79	5.10	4.80
50 years	5.49	4.80	4.60

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate stands at 3.5%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested **budgeted earnings rates for investments** up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now %	Previously %
2024/25 (residual)	4.50	4.60
2025/26	4.10	4.10
2026/27	3.60	3.70
2027/28	3.50	3.50
2028/29	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad-hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

5.3 APPENDIX: Treasury Management Practice (TMP1) Credit and Counterparty Risk Management

MHCLG issued Investment Guidance in 2018, and this forms the structure of the PCC's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for PCCs to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this PCC to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sector Guidance Notes. This PCC has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the PCC will use. These are high security (i.e. high credit rating, although this is defined by the PCC, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the PCC is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the PCC has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council, community council
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AA- or equivalent from Fitch, Moody's or Standard and Poor's rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). This category covers bodies with a minimum short term rating of F1/P-1/A-1 respectively as rated by Fitch, Moody's or Standard and Poor's rating agencies.

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

- **Banks 1:** good credit quality – the PCC will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA- or equivalent from at least one of the credit rating agencies
 - iii. have a minimum credit rating of F1 Short Term and A- Long Term Fitch or equivalent from at least one of the credit rating agencies:

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- iv. Investments will include term deposits, call accounts, notice accounts and CD's (Certificates of Deposit).
- **Banks 2** – Part nationalised UK banks – Royal Bank of Scotland Group. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above.
 - **Banks 3** – Nat West Bank – The PCC's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - **Bank subsidiary and treasury operation** – The PCC will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
 - **Building societies** – The PCC will use all societies which meet the ratings for Banks 1 outlined above.
 - **Money market funds (MMFs)** – AAA **CNAV** (Constant Net Asset Value) money market funds asset over £1bn limited to £10m or 0.5% of the fund's net asset size (per fund).
 - **Money market funds (MMFs)** – AAA Government backed **CNAV** money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Money Market Funds (MMFs)** – AAA **LVNAV** (Low Volatility Net Asset Value) money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Money Market Funds (MMFs)** – AAA **VNAV** (Variable Net Asset Value) money market funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Ultra-Short Dated Bond Funds with a credit rating of at least 1.25** – AAA funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **Ultra-Short Dated Bond Funds with a credit rating of at least 1.50** – AAA funds limited to the lower of £10m or 2% of the fund's net asset size (per fund).
 - **UK Government** – including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF)
 - **Local authorities**, parish councils and PCC's – Local Authorities do not have a credit rating. Section 6 of the Local Government Act states that Local Authorities have the power to borrow and provides the statutory protection to lenders to local authorities.

- **Supranational institutions**
- **Corporate Bonds and Pooled Funds** – Corporate Bonds and Collective Investment Schemes (Pooled Funds) will be considered as investment tools, enabling the PCC to diversify the investment portfolio away from the banking sector and provide the potential for enhanced returns. Inclusion is on the explicit understanding that approval is required from the PCC before use of such investments.
- **Longer-term Investments (greater than one year)** – Longer-term deposits up to a maximum of two years, with **UK domiciled banks** and/or **multilateral development banks** (five years for **local authorities** and other **PCC's**) can be placed with explicit approval from the PCC in consultation with the Chief Finance Officer. The PCC has placed a maximum limit for principal sums invested for over one year as £20m.

Within these bodies, and in accordance with the Code, the PCC has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as follows:

Specified investments - Time limits for specified investments (up to a maximum of 365 days) and the monetary limits per country/sector/banking group will be subject to explicit approval by the PCC in consultation with the Chief Finance Officer, and will be continually reviewed in-year. Such approval will relate to the institution rather than the particular investment and will remain in force until revoked.

In addition specific limits over and above individual counterparty limits, for which specified investments may be placed up to, will be designated as follows:

- Maximum amount per **banking group: £20m**
- Maximum amount invested in **UK Building Societies: £10m**
- Maximum % invested in **UK domiciled institutions: 100%**
- Maximum total investments for **non-UK countries: £40m**
- Maximum amount invested per individual **non-UK country: £10m**
- Maximum total amount invested for **over one year: £20m**

Non-specified investments – Non-specified investments are any other type of investment (i.e. not defined as specified). Where the PCC's cash flow forecast has identified a core surplus of funds, approval may be given to some long-term investments (i.e. with a maturity of one year or longer). The PCC has placed a maximum limit for the total of principal sums invested in 2025/26 for over one year as £20m. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the PCC's counterparty list are as follows (these will cover both specified and non-specified investments):

Investments	Fitch Long term Rating (or equivalent)	Money Limit	Transaction limit	Time Limit
Banks 1 higher quality	AA-	£20m	£10m	2 years
Banks 1 medium quality	A	£15m	£10m	365 days
Banks 1 lower quality	A-	£10m	£10m	6 months
Banks 2 – part nationalised (RBS/Nat West)	N/A	£20m per group	£10m	2 years
Banks 3 category – PCC's banker (not meeting Banks 1)	A-	£20m	£10m	1 day
Other institutions limit	A-	£10m	£10m	6 months
DMADF / Treasury Bills	AAA	Unlimited	£10m	6 months
Local authorities and PCC's	N/A	£10m	£10m	5 years
CNAV Money market funds assets over £1bn	AAA	Lower of £10m or 0.5% of fund size per fund	£10m	Liquid
CNAV Government backed money market funds	AAA	Lower of £10m or 2% of fund size per fund	£10m	Liquid
LVNAV Money Market Funds (MMFs)	AAA	Lower of £10m or 2% of fund size per fund	£10m	Liquid
VNAV Money Market Funds (MMFs)	AAA	Lower of £10m or 2% of fund size per fund	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit rating of at least 1.25	AAA	Lower of £10m or 2% of fund size per fund	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit rating of at least 1.50	AAA	Lower of £10m or 2% of fund size per fund	£10m	Liquid
Pooled funds (e.g. Investec short dated bond fund) The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This PCC will seek specific guidance on the status of any fund it may consider using.		Further approval required		5 years
Corporate Bonds (e.g. Network rail and Tesco bonds) The PCC will seek further advice on the appropriateness of these categories as there is a higher risk of loss with this type of instrument.		Further approval required		5 years

Non Specified Investment Category	Fitch Long term Rating (or equivalent)	Money Limit	Transaction limit	Time Limit
<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail, the Guaranteed Export Finance Company [GEFCO])</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>		£5m per bank	£5m	2 years
<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>		Unlimited		5 years
<p>Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The PCC may use such building societies which have a minimum asset size of £1bn, but will restrict this type of investments to £5m.</p>		£5m in total	£5m	1 year

The PCC will seek further advice on the appropriateness and associated risks with investments in the above categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The PCC receives credit rating information (changes, rating watches and rating outlooks) from MUFG Corporate Markets as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Environmental, Social & Governance (ESG) Considerations

This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. While around two thirds of councils have declared a “climate emergency” to date, this has not translated into the incorporation of something more formal within their treasury-related Annual Investment Strategy. Changes to the CIPFA TM Code 2021 will see ESG incorporated into Treasury Management Practice 1. The following wording (page 18 of the Treasury Management Code) suggests the scope of what is included: “The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.”

Furthermore, page 50 of the Treasury Management Code states “ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.”

5.4 APPENDIX: Approved countries for investments

The following list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except, at the time of writing for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets credit worthiness service.

The list was correct as at 31 January 2025 and is included for illustrative purposes on the basis that ratings may change throughout the year and will therefore be reviewed on the day prior to investment.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- **U.K.**

5.5 APPENDIX: Treasury management scheme of delegation

(i) Police and Crime Commissioner for Sussex

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual treasury management strategy statement (TMSS) including prudential, treasury indicators and Capital Strategy.
- approval of MRP statement.
- approval of the quarterly treasury management monitoring reports.
- approval of the annual treasury report.
- approval of any mid year amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- approval of the annual budgets.
- is responsible for the legal contracting body who owns all the assets and liabilities, with the responsibility for the financial administration of their office and the Force, including all borrowing limits.

(ii) Chief Finance Officer

- securing the resources for the treasury management function, including loans and investments.
- approval of 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.

(iii) Joint Audit Committee responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- ensure that an effective system of scrutiny is in place in respect of Treasury Management policy, strategy, policies and practices.
- Reviewing all Treasury Management Reports before they are presented to the PCC for approval including:
 - annual treasury management strategy statement (TMSS) including prudential, treasury indicators and Capital Strategy.
 - the quarterly treasury management monitoring reports.
 - the annual treasury report.

5.6 APPENDIX: The treasury management role of the section 151 officer

The Chief Finance Officer to the Police and Crime Commissioner for Sussex is the S151 (responsible) officer as required by legislation. The role is to:

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

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both the Treasury Management and Prudential codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management) as follows:

- ensuring the preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the PCC has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- providing a list to the PCC and JAC stakeholders of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the PCC
- ensuring that the PCC has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices including:
 - Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information, including where and how often monitoring reports are taken;
- Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

5.7 APPENDIX: Prudential Code Indicators to 2028/29

APPENDIX: Prudential Code Indicators for TMS 2025-26

Impact of Capital Plans on Council Tax	Actual 2023/24	Budget 2024/25	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29
Impact on Council Tax (Band D Equivalent)	239.91	252.91	252.91	266.91	272.25	277.69	283.25
Taxbase Increase	6.67%	5.42%	5.42%	5.54%	2.00%	2.00%	2.00%

Financial	Actual 2023/24 £000	Budget 2024/25 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000	Estimate 2027/28 £000	Estimate 2028/29 £000
Capital Expenditure (excluding leasing and PFI)	15,421	15,619	19,938	28,038	34,889	23,205	29,959
Capital Financing Requirement (Inc PFI & Leases) at 31 March	28,518	33,704	33,545	33,566	53,953	58,969	61,620
Authorised Borrowing Limit (Actual Debt/Op' borrow limit + £15m)	45,484	53,760	53,576	53,601	77,046	82,814	85,863
Operational Boundary (total l/t borrowing + 15%)	30,484	38,760	38,576	38,601	62,046	67,814	70,863
Net Borrowing	(18,869)	3,388	(5,412)	1,995	24,493	31,945	36,385
Financing costs	4,430	6,000	6,000	6,000	6,000	6,000	6,000
Net revenue Stream (Taxation and Non-specific Grant Income)	(390,136)	(440,326)	(434,410)	(449,911)	(455,297)	(467,689)	(471,313)
Financing costs/Net revenue Stream	1.14%	1.36%	1.38%	1.33%	1.32%	1.28%	1.27%

Borrowing -MRP	Actual 2023/24 £000	Budget 2024/25 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000	Estimate 2027/28 £000	Estimate 2028/29 £000
Long Term Borrowing - Fixed Rate (PWL B Loan £4.5m)	0	0	0	0	0	0	0
Long Term PFI Liability - PFI	10,467	9,492	9,492	8,529	7,380	5,785	4,157
Long Term Finance Lease Liability - Brighton East	472	436	436	396	354	310	262
IFRS 16 - Leases impact		2,483	1,708	926	607	410	330
Long Term External Borrowing (PWL B)	12,648	19,588	19,588	21,995	44,493	51,945	56,385
Long Term Internal Borrowing	2,921	1,705	2,320	1,720	1,119	518	486
Total Long Term Debt	26,508	33,704	33,545	33,566	53,953	58,969	61,620
15% x External Debt (Total Long term borrowing)	3,977	5,056	5,032	5,035	8,093	8,845	9,243
Operational borrowing limit	30,485	38,760	38,576	38,601	62,046	67,814	70,863
£15m additional	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Authorised borrowing limit	45,485	53,760	53,576	53,601	77,046	82,814	85,863
Investments	(31,517)	(16,200)	(25,000)	(20,000)	(20,000)	(20,000)	(20,000)
Maximum investment level allowed longer than 1 year	(7,879)	(4,050)	(6,250)	(5,000)	(5,000)	(5,000)	(5,000)
Maximum % investment longer than 1 year	25%	25%	25%	25%	25%	25%	25%
Borrowing (actual external borrowing)	12,648	19,588	19,588	21,995	44,493	51,945	56,385
Investments	(31,517)	(16,200)	(25,000)	(20,000)	(20,000)	(20,000)	(20,000)

Treasury Management	Actual	Budget	Estimate	Estimate	Estimate	Estimate	Estimate
	2023/24	2024/25	2024/25	2025/26	2026/27	2027/28	2028/29
Compliance with CIPFA Code of Practice	YES	YES	YES	YES	YES	YES	YES
15-20 Years	100%	100%	100%	90%	73%	79%	83%
10-15 Years	0%	0%	0%	0%	24%	19%	16%
1-5 Years	0%	0%	0%	10%	4%	2%	1%
Maximum % Borrowing allowable at Fixed Rates	100%	100%	100%	100%	100%	100%	100%
Maximum % Borrowing allowable at Variable Rates	25%	25%	25%	25%	25%	25%	25%
Maximum % Investments allowable at Fixed Rates	100%	100%	100%	100%	100%	100%	100%
Maximum % Investments allowable at Variable Rates	100%	100%	100%	100%	100%	100%	100%
Maximum Allowable Principal Invested > 365 days	25%	25%	25%	25%	25%	25%	25%
Maximum Actual Principal Invested > 365 days							

5.8 APPENDIX: Treasury Management Practice Notes (TMP's)

Treasury Management Services

The PCC's Chief Finance Officer has responsibility for Treasury Management under the PCC's Scheme of Delegation to approve the arrangements for the Treasury Management function, including the day to day management, the production of the Treasury Management Strategy and supporting policies and procedures. For the purpose of the Treasury Management function, the Chief Finance Officer is the responsible officer.

The Chief Constable is responsible via delegation to the Corporate Finance Team for providing an effective Treasury Management processing service covering capital and day-to-day revenue requirements, managing cash flows, borrowing and lending in a prudent and efficient manner, in line with the Treasury Management Strategy and Treasury Management Practices agreed with the PCC's Chief Finance Officer.

Treasury Management includes the following activities:-

- Monitor day-to-day cash flows, arrange short-term borrowing or investment as required;
- Arrange and monitor borrowings within best professional practices.
- Manage the funding of the capital programme through borrowing, leasing, capital receipts, use of grants and contributions and direct revenue finance.
- Manage debt, including re-scheduling and monitoring to achieve an even maturity profile.
- Manage the exposure to interest rate fluctuations and assessment of creditworthiness of counterparties.
- Performance measurement and management including methodology and criteria for assessing the performance and success of non-treasury investments.
- Effective decision making and governance arrangements to ensure appropriate due diligence is carried out to support investment decisions, including decisions relating to non-treasury investments.

The provision of internal Treasury Management processing services is provided by the Chief Constables finance team as set out in a memorandum of understanding between the PCC and Chief Constable's.

This service provided by the Chief Constable's finance team includes but has not been exclusively restricted to the following objectives:-

General Objectives

- Managing the PCC's cash flow, banking, money market and capital transactions
- Effective control of the risks associated with those activities, and pursuit of optimum performance consistent with those risks
- Provision of all such services to be carried out in accordance with CIPFA's Treasury Management Code of Practice and Prudential Code, the 2003 Local Government Act, MHCLG MRP guidance, MHCLG Investment guidance, IFRS9 Financial Asset Accounting, IFRS16 Leasing and the PCC's Treasury Management strategy and policy and investment strategy
- Ensure adequate treasury management resources and skills, and effective division of responsibilities within the treasury management team

Cash Management

- Ensure necessary working capital is available to enable operational requirements of the PCC and Force to be met

- Ensure all necessary procedures are in place to provide for efficient management of the PCC's cash flow
- Assist the PCC's management team in preparing future cash flow forecasts and advising on strategy

Banking

- Opening necessary bank accounts in accordance with the Scheme of Delegation and Financial Regulations of the PCC, including Petty Cash (Imprest) accounts as determined by the Chief Finance Officer
- Ensure banking and petty cash transactions are carried out with due authorisation
- Carry out necessary reconciliations and controls as required by the PCC including bank and cash reconciliations as appropriate
- Maintenance and provision of access to all necessary procedures and records

Investment

- Prudent recommendations for investment of surplus cash balances in line with the PCC's annual investment strategy
- Provision of an effective investment management service which meets the PCC's requirements in respect of growth, risk and liquidity
- Maintenance of comprehensive records in respect of all investment transactions
- Allocation of investment interest to the PCC based on surplus cash balances and investments
- MMF transactions are placed through the ICD portal, with the majority of funds deposited through the ICD account rather than with the MMF provider directly
- Fixed term deposits are sometimes invested on our behalf by MUFG Corporate Markets Agency Treasury Services and held in a client trust account prior to being deposited with chosen banks.

Borrowing

- Provision of a borrowing service which meets the PCC's requirements for cashflow purposes and to finance the capital programme.
- Ensure borrowing arrangements meet best professional practice.
- Maintenance of comprehensive records in respect of all borrowing transactions.

Debt Management

- Management of debt, including new arrangements, re-scheduling and monitoring to achieve an even maturity profile

Risk Management

- Effective management of risk on behalf of the PCC in the pursuit of optimum performance, consistent with the PCC's Treasury Management Strategy
- Risk management to consider investment and risk management criteria for any material non-treasury investment portfolios.

Treasury Management Advice

- The PCC appoints external treasury management advisors. Payment for external advice in addition to the budget will be charged directly to the PCC cost centre.
- The Chief Constable's finance team will liaise with the PCC's external treasury management advisors (currently MUFG Corporate Markets Asset Management Services). Responsibility for treasury management decisions remains with the PCC and approval is required from the PCC's Chief Finance Officer of the approach to treasury management transactions, and to ensure that undue reliance is not placed upon our external service providers.

- The value of employing external providers of treasury management services is in order to acquire access to specialist skills and resources. Terms of their appointment and the methods by which their value will be assessed will be subject to regular review by the PCC's Chief Finance Officer.

Training

- The CIPFA Code requires the responsible officer (Chief Finance Officer) to ensure that those with responsibility for treasury management receive adequate training in treasury management
- Training will be arranged as required with periodic review of training needs within the finance team members undertaking treasury management activities

Reporting

The Chief Constable's finance team is required to submit a range of reports and updates on an annual basis, providing all necessary financial information and records to the PCC's CFO to allow the statutory role to be carried out. Some reports are required to be scrutinised by the Joint Audit Committee (JAC) before being approved by the PCC.

This is to include:

- **Capital Strategy Report** providing high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, the management of the associated risk and the implication for future financial sustainability
- **Capital plans** (including prudential indicators) in the annual budget report;
- Annual Minimum Revenue Provision (**MRP**) **policy** on how residual capital expenditure is charged to revenue over time
- **Annual Treasury Management Strategy** describing how the investments and borrowings are to be organised, including treasury indicators and an Investment Strategy detailing parameters on how investments are to be managed. (JAC)
- **Annual Treasury Management Report** providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. (JAC)
- **Quarterly Treasury Management Reports** to update the Joint Audit Committee and the PCC on progress of the capital position, amending prudential indicators as necessary, and assessing whether the treasury strategy remains fit for purpose or whether any revision or amendment is required. (JAC)
- **Day to day reporting** including regular updates and local arrangements agreed by the CFO and Director of Finance in line with the Schemes of Delegation and Financial Regulations.

Indemnities and Insurance

The Chief Constable has responsibility via delegation to the Joint Insurance Team for the insurance function in line with the strategy approved by the PCC on an annual basis. The Chief Constable shall indemnify and keep indemnified Sussex PCC against all losses, actions, claims, demands, proceedings, damages, costs, charges and expenses whatsoever in respect of, or in any way arising out of the provision of the TM services or any part of them or other work carried out pursuant to this Agreement including injury to, or death of, any person and loss of, or damage to, any property including also property belonging to Sussex PCC arising from any act of neglect or negligence on the part of Sussex Police staff except and to the extent that:

- It may arise out of the act error default or negligence of Sussex PCC its employees or agents (not being Sussex Police or its personnel) or by breach by Sussex PCC of any of its obligations under this arrangement, or
- It arises as a direct result that Sussex Police staff acted on the instructions of Sussex PCC

Save for death and personal injury, the liability of Sussex Police (whether in contract, tort or otherwise) for a breach of its obligations under this arrangement shall not exceed ten million pounds (£10,000,000) per occurrence.

Without limiting its responsibilities under this condition, Sussex Police shall ensure that the interest of Sussex PCC is noted on any contracts of insurance it effects which are relevant to the performance of its obligations under this arrangement.

Such contracts of insurance may include but not be limited to Fidelity Guarantee insurance, Public Liability insurance, Professional Indemnity insurance and Officials Indemnity insurance.

5.9 APPENDIX: Glossary

Basis point

1/100th of 1%, i.e. 0.01%

Bill of Exchange

A financial instrument financing trade.

Callable Deposit

A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates before maturity. This decision is based upon how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Capital Financing Requirement (CFR)

The capital financing requirement represents the underlying indebtedness for capital purposes.

Certificate of Deposit (CD)

Evidence of a deposit placed with a financial institution repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the leading professional institute for accountancy and financial management in public services.

Commercial Paper

Short-term obligations maturing between 2 and 270 days which is issued by a bank, corporation or other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Constant Net Asset Value (CNAV)

Constant Net Asset Value refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund, at £1 and calculate their price to 2 decimal places.

Consumer Prices Index (CPI)

Calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the Retail Price Index, such as unit trust commissions and university accommodation fees. The "baskets" also apply different weightings to different components.

Counterparty

Another (or the other) party to an agreement or other market contract (e.g. lender / borrower / writer of a swap etc.).

Corporate Bond

Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, banks, supranational organisations and government agencies.

Credit Default Swap

A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

Derivative

A contract with a value based on the performance of an underlying financial asset, index or other investment. e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

MHCLG

The Department of Levelling Up, Housing and Communities. Is the UK Government department responsible for UK Government policy across these areas. Previously known as the Ministry for Housing, Communities and Local Government (MHCLG).

DMADF

Deposit Account offered by the Debt Management office, guaranteed by the UK government

Equity

Share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

Floating Rate Notes

Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal

The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Forward Deposits

Same as a forward deal.

Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit rated parent institution: any maturity

Placing money with a bank or building society that has no credit rating, but it does have a guarantee from the UK government or its parent bank.

Unrated deposit takers (banks and building societies) which do not have an unconditional guarantee: any maturity

As above, but without any guarantee at all.

Gilt

Registered British government securities giving the investor an absolute commitment from the government to honour the debt represented by those securities.

Gilt Funds

Pooled fund investing in bonds guaranteed by the UK government.

Government MMF

Money Market Funds that invest solely in government securities, or reverse repurchase agreements backed by Government securities.

MiFID

Markets in Financial Instruments Directive (MiFID) is a regulation that increases the transparency across the European Union's financial markets and standardises the regulatory disclosures required for particular markets. The directive has been in force across the European Union (EU) since 2008.

Minimum Revenue Provision (MRP)

MRP is the minimum prudent amount needed to pay off capital expenditure for a given year.

Money Market Fund (MMF)

Well rated and highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF, equities are replaced by cash instruments. Returns are typically around 1 month LIBID, and the average maturity is generally below 60 days.

Open Ended Investment Companies

A well-diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread.

Other Bond Funds

Pooled funds invested in a wide range of bonds.

Private Finance Initiatives (PFI)

PFI schemes are service concession arrangements typically involve a private sector entity (the operator) constructing or upgrading assets used in the provision of a public service, and operating and maintaining those assets for a specified period of time. The operator is paid for its services over the period of the arrangement.

Public Works Loan Board (PWLB)

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an executive agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and to collect the repayments.

Reverse Gilt Repo

This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

SONIA (Sterling Overnight Index Average)

SONIA is the effective reference overnight rate for unsecured transactions in the Sterling market. SONIA is now the key reference rate for most market transactions, effectively replacing LIBOR.

Sovereign Issues (Ex UK Gilts)

Bonds issued or guaranteed by nation states, but excluding UK government bonds.

Supranational Bonds

Bonds issued by supranational bodies which are entities formed by two or more central governments to promote economic development for the member countries e.g. European investment bank. These bonds – now known as Multilateral Development Bank bonds – behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

Term Deposit

A deposit held in a financial institution for a fixed term at a fixed rate.

Treasury Bill

Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final *redemption* value.

Ultra-Short Dated Bond Fund (USDBF)

Fund designed to produce an enhanced return over and above a Money Market Fund (MMF - see above). The manager may use a wide range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated investments. Such funds are not as homogenous as MMFs and require a full understanding of how each operates.

Unfunded Capital Financing Requirement (Unfunded CFR)

Amount of CFR not funded by loans or other long-term liabilities.

Variable Net Asset Value (VNAV)

Variable Net Asset Value refers to funds which use mark-to-market accounting to value some of their assets. The Net Asset Value of these funds will vary by a slight amount, due to the changing value of the assets.

Voluntary Revenue Provision (VRP)

VRP payments are voluntary payment amounts made to pay off capital spend.

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