PCC
POLICE AND CRIME COMMISSIONER FOR ESSEX

Approved by:	Classification of paper:
Charles Garbett, PCC's Chief Financial Officer	Not Protectively Marked

Report to PCC	Report reference number PCC/0031/13
Date of decision Date of report 23rd May 2013	Area of county / Stakeholders affected Forcewide
Title of report Treasury Management Strategy 2013/14	
Report by Alistair Greer, Force Corporate Accounting Manager	
Enquiries to Charles Garbett, PCC's Chief Financial Officer	

1.0 Purpose of Report

1.1 To seek approval for:-

(i) a proposed Treasury Management Strategy for 2013/14, and

(ii) the proposed Minimum Revenue Provision (MRP) policy for 2013/14,

1.2 To provide an update on the contract for a treasury advisory service.

2.0 Recommendations

2.1 The PCC is recommended to:-

(i) approve the proposed Treasury Management Strategy for 2013/14,

(ii) note the intention to present a revised investment strategy in September 2013

(iii) approve the proposed Minimum Revenue Provision policy for 2013/14 and

(iv) note the position with regard to the award of a treasury advisory contract

3.0 Benefits of Proposal

3.1 The proposed Treasury Management Strategy provides a framework for the effective management of the PCC's cash balances.

4.0 Background and Proposal

4.1 This report sets out a Treasury Management Strategy for 2013/14 which continues the strategy followed during 2012/13. The plan is to review this strategy over the next month with the advice of the newly appointed treasury advisors. Treasury Management Strategies are subject to statute and recommended professional guidance, thus a number of technical financial terms are commonly used. This report seeks to avoid jargon but, where required, these technial terms are explained fully. The strategy covers two main areas:-

Treasury management issues

- *the current treasury position;*
- *treasury indicators;*
- *the investment strategy;*
- *the borrowing strategy;*
- *policy on borrowing in advance of need;*
- *use of external service providers.*

Capital finance issues

- *the capital prudential indicators;*
- *the Minimum Revenue Provision (MRP) policy statement.*

Current Treasury Position

4.2 The PCC's forecast cash balances available for investment for the period from 31 March 2013 to 31 March 2016 are summarised in Table 1.

Table 1: Forecast net cash position at 31 March each year

	2012 Actual £m	2013 Estimate £m	2014 Estimate £m	2015 Estimate £m	2016 Estimate £m
Net cash position	34.7	29.5	22.5	22.2	21.9
(Decrease)/increase		(5.2)	(7.0)	(0.3)	(0.3)

4.3 The PCC has inherited no external borrowing from the former Essex Police Authority, whose policy was to minimise interest costs by using its own cash balances (where it had Government "credit approval") to fund temporarily some capital payments. This approach has been described as "internal borrowing". The forecast reduction in borrowing is shown in Table 2 and assumes that there will be no additional borrowing over the four year period.

Table 2: Borrowing Requirements

	2012/13 £m estimate	2013/14 £m estimate	2014/15 £m estimate	2015/16 £m estimate
New borrowing	0.0	0.0	0.0	0.0
Internal borrowing	9.6	9.0	8.5	8.0
Replacement borrowing	0.0	0.0	0.0	0.0
TOTAL	**9.6**	**9.0**	**8.5**	**8.0**

Treasury Indicators

4.4 The PCC is recommended to agree the following treasury indicators. The purpose of these is to limit treasury risks and provide a control and performance framework for treasury activities.

a) Operational Boundary

This term refers to a limit on total debt, which the PCC would not normally expect to exceed. Currently, this equates to the level of internal borrowing inherited from the former Police Authority, which is being repaid at £0.5m / pa.

Table 3: Operational Boundary

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing ("internal")	9.6	9.0	8.5	8.0
Other long term liabilities	0.0	0.0	0.0	0.0
Total	**9.6**	**9.0**	**8.5**	**8.0**

b) Authorised Limit for Borrowing

This is the limit that the PCC is required to set for total borrowing, including short-term borrowing. Once set for the year, it cannot be exceeded, as determined in section 3 (1) of the Local Government Act 2003. It is recommended that the PCC allows some leeway of, say, £2m to allow for any unexpected short term borrowing requirements that may arise during 2013/14.

Table 4: Authorised Limits

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing ("internal")	9.6	9.0	8.5	8.0
Short term external borrowing	0.0	2.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0

Total	**9.6**	**11.0**	**8.5**	**8.0**

Investment Strategy

4.5 An investment strategy would normally be developed in consultation with the treasury advisors. This year there has been limited opportunity for this due to the timing of the start of the contract (April 2013). The investment strategy set out in the following paragraphs is therefore an interim strategy, and it is intended that a revised strategy be presented to the PCC later in September 2013.

4.6 The PCC's investment priorities will be:
(a) Security of capital;
(b) Liquidity of investments.

4.7 The investment instruments approved for use in 2012/13 are listed in Appendix A. It is proposed that the same list is adopted in 2013/14, subject to review in September 2013.

4.8 It is proposed that the PCC uses the creditworthiness service provided by the treasury management advisor following the award of the contract in April 2013.

4.9 It is proposed that the following limits for investments, applied in 2012/13, are retained for 2013/14, subject to review in September 2013.

Table 5: Investment limits

1) Country limits

The PCC's investments will be restricted to the following institutions operating in the UK:

a) Institutions that are one of the following:-
   i) part of the UK government, e.g. Debt Management Office
   ii) UK local authorities
   iii)part-nationalised banking groups (Royal Bank of Scotland/Lloyds Bank)

b) UK Banks that either:
   i) have no foreign parent bank, e.g. Barclays, or
   ii) are 100% owned by a UK bank, e.g. National Westminster
   (which is fully owned by Royal Bank of Scotland)

c) UK Building Societies that have a credit rating from the three main credit ratings agencies

d) UK banks, and their formally guaranteed subsidiaries, that are owned by foreign parent banks, provided that the UK banks meet the following criteria:
   i) they are registered in the UK as companies in their own right
   ii) they operate under a banking licence issued by the Bank of England
   iii) they are regulated by the Financial Services Authority

2) Monetary limits
Debt Management Office – up to 50% of total investment portfolio
Part nationalised banks – £15m limit to principal investment with each banking group
All other financial institutions – £10m limit to principal investment with each institution

3) Durational limits
In line with the treasury advisor's creditworthiness rating for each institution in place at the start of the investment, up to a maximum duration of 12 months

4.10 Investments of up to £20m will be made in instant access deposits in order to meet the PCC's cash flow requirements.

4.11 The balance of the PCC's funds will be invested in fixed term investments and other appropriate products.

Borrowing Strategy

4.12 Table 6 compares the PCC's forecast net cash position over the next few years against the PCC's internal borrowing.

Table 6: Comparison of cash forecasts to internal borrowing

	31 March 2013 £m	**31 March 2014 £m**	**31 March 2015 £m**	**31 March 2016 £m**
Reserves & Provisions				
Earmarked Revenue Reserves	0.9	(0.5)	(0.5)	(0.5)
General Reserve	21.8	19.1	19.1	19.1
Capital Reserves	15.5	12.7	12.7	12.7
Provisions	0.9	0.2	(0.6)	(1.4)
Total Reserves & Provisions	**39.1**	**31.5**	**30.7**	**29.9**
Cash/liquidity Position				
Investments	29.9	29.9	29.1	28.3
Less net creditors	(0.4)	(7.4)	(6.9)	(6.4)
Net Cash	**29.5**	**22.5**	**22.2**	**21.9**
Internal borrowing	**9.6**	**9.0**	**8.5**	**8.0**
External borrowing required	**0.0**	**0.0**	**0.0**	**0.0**

4.13 Table 6 shows that that there is no forecast requirement to replace internal borrowing with external borrowing, because forecast net cash balances remain higher than the Capital Financing Requirement in each of the years.

The internal loans could be externalised should interest rates become favourable. The PCC's CFO will keep this option under review in future years.

Policy on Borrowing in Advance of Need

4.14 Should the PCC decide to borrow in the future, he must not borrow more than or in advance of needs in order to profit from the investment. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money is met.

Use of External Service Providers

4.15 The former Essex Police Authority terminated the contract with its treasury advisor in June 2012.

4.16 The view of the PCC's Chief Financial Officer is that there is value in employing external providers of treasury advisory services in order to access specialist skills and resources. A tender exercise has recently been undertaken and a contract has been awarded to Arlingclose Ltd.

Capital Prudential Indicators

4.17 The first capital prudential Indicator is a summary of the PCC's capital expenditure plans, as shown in Table 7.

Table 7: Capital Expenditure Forecasts to 2014/15

	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Total	7.6	8.3	8.4	3.7

There are currently no capital programmes for 2014/15 and 2015/16. The amount in the 2014/15 column represents forecast final payments from all previous years' programmes.

4.18 The second capital prudential indicator is the PCC's Capital Financing Requirement, which shows the following projections.

Table 8: Capital Financing Requirement

	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Fin Req (CFR)	10.5	9.6	9.0	8.5	8.0
Movement in CFR		(0.9)	(0.6)	(0.5)	(0.5)

4.19 The third indicator identifies the trend in the cost of capital (borrowing and other long term costs, net of investment income) against total net revenue.

Table 9: Cost of Capital against net revenue stream

2011/12	2012/13	2013/14	2014/15	2015/16

	Actual	Estimate	Estimate	Estimate	Estimate
%	0.04%	0.19%	0.03%	0.03%	0.03%

4.20 The fourth indicator shows the incremental impact of capital investment decisions on the PCC's Band D Council Tax.

Table 10: Incremental Impact of Capital Investment on Band D Tax

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
£	£0.02	£0.49	-£0.20	-£0.26	£0.01

Minimum Revenue Provision (MRP) Policy Statement

4.21 The PCC is required to pay off an element of the CFR through the MRP and through additional voluntary payments if required. DCLG Regulations require the PCC to approve an MRP Statement in advance of each financial year. A variety of options are available, so long as there is prudent provision.

4.22 The PCC is recommended to approve a policy that provides for an MRP of 4% of CFR at the end of 2012/13. (Option 2 under DCLG Regulations).

4.23 As the PCC currently has internal debt, it is necessary to use the MRP as the means to write down the debt over time. In the past this has been done by calculating the provision as 4% of the outstanding sum and making additional voluntary revenue provisions, so that the combined contribution matches the budget provision of **£0.521m.** It is proposed that this approach is retained for 2013/14.

5.0 Police and Crime Plan

Not applicable

6.0 Police Operational Implications

Not applicable

7.0 Financial Implications

Fully covered within section 4.

8.0 Legal and Contractual Implications

8.1 Approval of the Treasury Management Strategy satisfies the requirements of the Local Government Act 2003 and subsequent regulations and guidance.

9.0 Staffing and Other Resource Implications

Not applicable

10.0 Equality and Diversity Implications

Not applicable

11.0 Background Papers

None

Appendix A

Specified investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	n/a	In-house
Term deposits – UK banks and building societies	As per treasury advisor's creditworthiness service	In-house
Term deposits – local authorities	n/a	In-house

Other specified investments:

Certificates of deposits issued by banks and building societies covered by UK Government guarantee (see note below)	UK sovereign rating	In-house buy and hold
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Three month suggested duration as per treasury advisor's creditworthiness service	In-house buy and hold
Treasury Bills	UK sovereign rating	In-house
UK Government Gilts	UK sovereign rating	In-house

A custodian account provided by a third party bank will be required for:

- treasury bills and UK government gilts issued by the Debt Management Office
- certificates of deposit issued by banks and building societies

Non-specified investments

Non-specified investments have a number of characteristics, one of which is that the duration is for over one year. This duration is in excess of the investment limits as set out in paragraph 4.10 of this report. The PCC will therefore not use non-specified investments.

Report Approval

The report will be signed off by the Chief Executive and CFO and the PCC Solicitor where legal implications arise.

Chief Executive/M.O ....

Chief Financial Officer ....

PCC Legal Advisor .... (as necessary)

Decision

I agree the recommendations to this report

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PCC/Deputy PCC

I do not agree the recommendations to this report because

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PCC/Deputy PCC

Publication

Reasons for non-publication *(state 'None' if applicable)*

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Signed/Print name

Report for publication **YES** ☐

NO ☐

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.