

<b>Approved by:</b>  Charles Garbett, PCC's Chief Financial Officer	<b>Classification of paper:</b>  Not Protectively Marked
<b>Report to PCC</b>	<b>Report reference number</b> PCC/0051/13 Finance EPBN 0020-2013
<b>Date of decision</b>  <b>Date of report</b> 21 November 2013	<b>Area of county / Stakeholders affected</b>  Forcewide
<b>Title of report</b> Half Year Treasury Review 2013/14 and Update on Investments with UK Financial Institutions	
<b>Report by</b> Alistair Greer, Corporate Accounting Manager	
<b>Enquiries to</b> Charles Garbett, Treasurer	

## 1.0 Purpose of Report

- 1.1 To present the half year treasury review for 2013/14.
- 1.2 To present an update regarding investments with UK financial institutions.

## 2.0 Recommendations

- 2.1 The PCC is recommended to:
  - (i) Note the half year treasury review for 2013/14.
  - (ii) Maintain the treasury investment limits shown at Appendix B.
  - (iii) Approve the use of the UK Counterparty List issued by the treasury advisors for investment decisions.

**3.0 Benefits of Proposal**

3.1 This report provides the PCC with a half yearly review of treasury management activity.

**4.0 Half Yearly Review 2013/14*****Investments***

4.1 The table on the following page summarises the investment position at 1 April and 30 September 2013.

<b>Investments</b>	<b>1 April 2013</b>	<b>30 Sept 2013</b>
	<b>£000</b>	<b>£000</b>
Call accounts	13,476	24,679
Fixed term deposits	15,000	22,500
<b>Total</b>	<b>28,476</b>	<b>47,179</b>

Full details of the investments are shown at Appendix A:-

4.2 The increase in investments between the two dates is mainly due to the receipt of £21.000m Police Pensions Top-Up Grant in July 2013. Investments will decrease over the second half of the year, with the balance at 31 March 2014 forecast to be £29.612m.

4.3 The average level of investments over the six month period was £37.800m. Interest earnings for the period were £0.099m, representing an average return of 0.53%. The budgeted investment income for the half year is £0.152m, and the earnings therefore represent an under-achievement of £0.053m. This is partly due to a fall in interest rates on call accounts and fixed term investments since the budget was set.

***Borrowings***

4.4 There have been no short or long-term borrowings over the six month period. No borrowings are envisaged over the remainder of the year.

***Compliance with Treasury Management Strategy***

4.5 The investment limit of £10.000m with Barclays was inadvertently breached. This was caused by a failure on one occasion to update the cash forecast records for an investment of £0.100m placed with Barclays. As a result investment with Barclays reached £10.1m thereby exceeding the £10m monetary limit for the institution as specified within the current investment policy.

4.6 The error was discovered during a scheduled monthly reconciliation as a result of which the treasury processes were reviewed and additional controls put in place to ensure that such breaches do not occur in the future.

4.7 In every other respect, treasury activity has been fully compliant with the strategy during the review period.

**5.0 Investments with UK Financial Institutions**

5.1 The 2013/14 treasury management strategy defines the country, duration and monetary limits for investments. These limits are set out at Appendix B. In particular, investments are restricted to UK financial institutions only. Investments are permitted with UK banks that are owned by a foreign bank provided that the UK bank meets three criteria (see section 1d of Appendix A).

5.2 The PCC's treasury advisors, Arlingclose, maintain a recommended lending of UK banks and building societies, the UK Counterparty List. Arlingclose issue the list each month. The most recent version was issued on 31 October 2013, and is as follows:

**Arlingclose UK Counterparty List  
31 October 2013**

**Banks**

Bank of Scotland  
Barclays  
Close Brothers Ltd  
Goldman Sachs International  
HSBC  
Lloyds  
National Westminster  
Royal Bank of Scotland  
Santander UK  
Standard Chartered

**Building Societies**

Nationwide

5.3 Corporate Finance has recently compared the list against the investment limits, and is satisfied that lending with each of the names listed would be compliant with the PCC's investment limits.

5.4 The PCC's investments are, at present, concentrated with a small number of financial institutions. Arlingclose have advised the Treasurer to introduce some diversity into the investment portfolio, which should both spread the risk and increase returns on investment. Their recommendation is that a maximum of 15% of the portfolio should be investment with any one institution. The effect of this change will be to limit the investment in any one institution to a maximum of around £7.5m. The Treasurer considers this advice to be sound, and intends to spread the portfolio across some of the other institutions shown on the list over the next few months.

5.5 The monetary limits shown at Appendix B will be maintained in order to allow the PCC to maximise investment returns with minimal additional risk.

5.6 The Treasurer will also keep the list under review, ensuring that any new names are compliant with the investment limits.

**6.0 Police and Crime Plan**

Not applicable

**7.0 Police Operational Implications**

Not applicable

**8.0 Financial Implications**

Fully covered within sections 4 and 5 of the report

**9.0 Legal and Contractual Implications**

9.1 Approval of the Treasury Management Strategy satisfies the requirements of the Local Government Act 2003, CIPFA Prudential Code, CLG MRP Guidance, CIPFA Treasury Management Code & CLG Investment Guidance.

**10.0 Staffing and Other Resource Implications**

Not applicable

**11.0 Equality and Diversity Implications**

Not applicable

**12.0 Background Papers**

None

## Appendix A

## Investment Position at 1 April and 30 September 2013

	1 April 2013 £000	Start date	Maturity date	Rate %
<b><u>Call Accounts</u></b>				
NatWest Bank Plc.	9,788			0.60%
Barclays Bank Plc.	3,688			0.30%
<b>Total</b>	<b>13,476</b>			
<b><u>Fixed Term Deposits</u></b>				
Lloyds Bank Plc.	5,000	18-Dec-12	18-Jun-13	1.00%
Lloyds Bank Plc.	5,000	05-Mar-13	05-Apr-13	0.35%
Lloyds Bank Plc.	5,000	05-Mar-13	05-Jun-13	0.70%
<b>Total</b>	<b>15,000</b>			
<b>Total all Investments</b>	<b>28,476</b>			

	30 Sept 2013 £000	Start date	Maturity date	Rate %
<b><u>Call Accounts</u></b>				
NatWest Bank Plc.	15,000			0.50%
Barclays Bank Plc.	9,679			0.30%
<b>Total</b>	<b>24,679</b>			
<b><u>Fixed Term Deposits</u></b>				
Nationwide Building Society	5,000	08-Jul-13	08-Oct-13	0.44%
Nationwide Building Society	2,500	19-Oct-11	19-Oct-12	0.38%
Lloyds Bank Plc.	5,000	03-Jul-13	03-Oct-13	0.70%
Lloyds Bank Plc.	5,000	08-Jul-13	08-Oct-13	0.70%
Lloyds Bank Plc.	5,000	09-Sep-13	09-Mar-14	0.85%
<b>Total</b>	<b>22,500</b>			
<b>Total all Investments</b>	<b>47,179</b>			

## Treasury 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) other 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 the 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

The PCC's investment priorities will be:

- (a) Security of capital;
- (b) Liquidity of investments.

The overarching aim of the strategy will be to maximise investment returns commensurate with maintaining security of capital and liquidity of investments.

It is proposed that the PCC uses the creditworthiness service provided by the treasury management advisor from April 2013.

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

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

The investment instruments approved for use in 2012/13 are listed below. It is proposed that the same list is adopted in 2013/14.

**Specified investments**

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

	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
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.

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**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 (see Appendix B). The PCC will therefore not use non-specified investments.





**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.