

Joint Audit Committee

19 June 2017

Warwickshire and West Mercia Police and Crime Commissioners Treasury Management Outturn Report 2016/2017

Recommendation.

The Committee is asked to consider and comment on the Treasury Management Outturn Report for 2016/17 before its consideration by the Warwickshire and West Mercia Police and Crime Commissioners.

1. Introduction.

1.1 Warwickshire and West Mercia Police and Crime Commissioners fully comply with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management 2011. The primary requirements of the Code are the:

- creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Police and Crime Commissioner's treasury management activities and is informed by the Medium Term Capital Programme.
- creation and maintenance of Treasury Management Practices which set out the manner in which the Police and Crime Commissioner will seek to achieve those policies and objectives;
- receipt by the Police and Crime Commissioner of an annual treasury management strategy report for the year ahead, a midyear review report (as a minimum) and an annual review report of the previous year;
- delegation by the Police and Crime Commissioner of responsibilities for implementing and monitoring treasury management policies and practices, and for the execution and administration of treasury management decisions.
- delegation by the Police and Crime Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. In this respect the Police and Crime Commissioner has chosen to delegate this responsibility to the Joint Audit Committee

- 1.2 Therefore, under the CIPFA Code, the Police and Crime Commissioner is required to receive a report on the outturn of the annual treasury management activity.
- 1.3 Treasury management in the context of this report is defined as:

“The management of the Police and Crime Commissioner’s cash flows, 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.” (*CIPFA Code of Practice*).
- 1.4 The Police and Crime Commissioner is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with a low risk appetite, providing security of capital and sufficient liquidity initially before considering investment return.
- 1.5 The second main function of the treasury management service is the funding of the Police and Crime Commissioner’s capital plans. These capital plans provide a guide to the borrowing need of the Police and Crime Commissioner, essentially the longer term cash flow planning to ensure that the Police and Crime Commissioner can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasions, debt previously drawn may be restructured to meet the Police and Crime Commissioner’s risk or cost objectives.

2 The Police and Crime Commissioners’ Current Treasury Position.

- 2.1 The Police and Crime Commissioners raise long-term borrowing to fund capital expenditure, i.e. expenditure on land and buildings and plant and equipment. The Police and Crime Commissioners did not take any new borrowing in 2016/17. There was £14.9 of long-term borrowing for Warwickshire and £10m of long-term borrowing for West Mercia as at 31 March 2017.
- 2.2 At the same time as borrowing for capital purposes, the Police and Crime Commissioners also have an investment portfolio. This consists of the Police and Crime Commissioner’s reserves and short-term cash flows. This cash was invested in-house.
- 2.3 As at 31 March 2016, the Police and Crime Commissioner for Warwickshire had £29m of cash investments and this had increased to £32.3m by 31 March 2017. As at the 31 March 2017 the timing of cash flows meant that Warwickshire held an overdraft of £3.6m, this overdraft was held for one day

only and at no cost, which was agreed with Lloyds Bank. Table 1.1 shows the Police and Crime Commissioner's debt and investment position at the beginning and the end of the year was as follows:

Table 1: Summary of Treasury Position for Warwickshire at 31 March 2017.

	Principal at 31.03.16	Rate/ Return For 2015/16	Principal at 31.03.17	Rate/ Return for 2016/17
A: Fixed Rate Funding	£m	%	£m	%
Public Works Loans Board Debt	15.8	4.68	14.9	4.68
Total Debt	15.8	4.68	14.9	4.68
B: Total Investments	29.0	0.42	32.3	0.20

- 2.4 As at 31 March 2016, the Police and Crime Commissioner for West Mercia had £46m of cash investments and this had reduced to £20m by 31 March 2017 reflecting the significant capital expenditure that took place. Table 2 shows the Police and Crime Commissioner's debt and investment position at the beginning and the end of the year was as follows:

Table 2: Summary of Treasury Position for West Mercia at 31 March 17.

	Principal at 31.03.16	Rate/ Return For 15/16	Principal at 31.03.17	Rate / Return for 16/17
A: Fixed Rate Funding	£m	%	£m	%
Public Works Loans Board Debt	10.0	4.44	10.0	4.44
Total Debt	10.0	4.44	10.0	4.44
B: Investments				
In House	46.0	0.42	20.0	0.31
Total Investments	46.0	0.42	46.0	0.31

- 2.5 West Mercia's rate of return on investments is on average 0.31% for the year compared to 0.20% for Warwickshire, this is because Warwickshire historically have smaller sums available to invest and have had to resort to using UKDMO more often, whereas West Mercia have been able to invest larger sums with a wider range of institutions. The decrease in West Mercia investments is due to capital expenditure funded from cash balances and revenue expenditure in the year which was funded from reserves.

3 Treasury Management Strategy for 2016/17.

- 3.1 The Police and Crime Commissioner approved the revised Treasury Strategy for 2016/17 in June 2016. Commented [21]: Repeats 1.6?

4 The Economy and Investment Rates in 2016/17.

- 4.1 The financial year 2016/17 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2016/17 was that Bank Rate would remain consistent at its historic low throughout the year. However, in August 2016 there was a cut in the bank rate to 0.25%

5 Borrowing Outturn for 2016/17.

- 5.1 Due to the slippage in the capital programme, the Police and Crime Commissioners did not take any PWLB borrowing in 2016/17. The £21.023m of the total alliance capital spend was funded from
- £5.936m Capital Receipts
 - £9.041m Capital Grants
 - £5.674m Infrastructure Reserve
 - £0.372m Revenue Contributions

In 2016/17 borrowing costs, consisting of the Minimum Revenue Provision (MRP) and interest, for West Mercia were £1.948m and for Warwickshire they were £2.058m, both of which are in line with the budget. The 2017/18 budget has been reduced to reflect the scheduled repayments of principal sums. The outturn is explained further in Money Matters report.

6 Compliance with Treasury Limits and Prudential Indicators.

- 6.1 During the financial year the Police and Crime Commissioner operated within the treasury limits and Prudential Indicators set out in the Police and Crime Commissioner's Treasury Policy Statement and Treasury Management Strategy.
- 6.2 Full details of the Prudential indicators set for 2016/17 and the results for the year are shown in **Appendix A**.

7 Investment Rates 2016/17.

- 7.1 It has been an interesting year and this is reflected in the UK interest rate and the rates of return that can be obtained on investments. Loans are predominately at 1 to 3 months and average between 40 to 50 days placed on the market. The marginal downward trend in the average rate of interest continued throughout the year subsequent to the Bank of England's Monetary Policy Committee decision on 3rd August 2016 to halve the UK Base Rate to

0.25%. This followed the UK referendum on EU membership. The rates of return have moved downwards as market rates fall and it becomes more difficult to place money with bodies other than the UKDMO. Uncertainty over the outcome of BREXIT continues to cause uncertainty, which is reflected in the market and this has been further increased by the announcement of a June General Election.

8 Investment Outturn for 2016/17.

- 8.1 The Police and Crime Commissioner's investment policy was governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Police and Crime Commissioner in June 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- 8.2 The Police and Crime Commissioners manage their short-term cash balances in-house and invest with the institutions listed in the Police and Crime Commissioner's approved lending list. In 2016/17 the Police and Crime Commissioners have invested for a range of periods from overnight to one year, dependent on the Police and Crime Commissioner's cash flows, its interest rate view and the interest rates on offer. Table 3 summarises the investment performance for 2016/17.

Table 3: Investment Outturn 2016/17.

	Average balance of Investments £m	Rate of Return %	Benchmark Return %
Internally Managed - Warwickshire	32	0.20	0.24
Internally Managed – West Mercia	40	0.31	0.24

- 8.3 Investment income for West Mercia in 2016/17 was £0.141m compared to a budget of £0.158m, and for Warwickshire investment income was £0.142m compared to a budget of £0.148m. The UKDMO has reduced the interest rate from 0.15% to 0.10% or less. This has had an adverse impact on the investment income.
- 8.4 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

9 Debt Rescheduling for 2016/17.

- 9.1 No debt rescheduling was undertaken in 2016/17.

10. Investment Limits.

10.1 Approved Counterparty Limits.

During 2016/17 there were no breaches of the approved counterparty list or limits set within the Treasury Management strategy for Warwickshire and West Mercia.

10.2 Non-specified investments.

Any investment not meeting the definition of a specified investment is classed as non-specified. In the year 2016/17 the Treasury Management Strategy the Commissioners did not intend to make investments denominated in foreign currencies, nor any that were defined as capital expenditure by legislation, such as company shares. Non-specified investments were therefore limited to long-term investments that were due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The Commissioners did set separate limits for Warwickshire and West Mercia.

The limits for non -specified investments are shown in the table below.

	Warwickshire Cash Limit	West Mercia Cash Limit
Total long-term investments	£5m	£10m
Total investments without credit ratings or rated below A-	£5m	£10m
Total investments with institutions domiciled in foreign countries or rated below AA+	£0m	£0m
Total non specified investments	£10m	£20m

All investments for both Warwickshire and West Mercia were made within the limits set by the Treasury Management Strategy.

10.4 Investment Limits for organisations and groups.

The investment limits for individual organisations or groups of organisations are shown below.

	Warwickshire Cash Limit	West Mercia Cash Limit
Any single organisation, except the UK Central Government	£3m	£6m
UK Central Government	Unlimited	Unlimited
Any group of organisations under the same ownership	£3m per group	£6m per group
Registered Providers (Housing Associations)	£6m	£12m
Unsecured Investments with Building Societies	£6m	£12m
Money Market Funds	£9m	£17m

All investments for both Warwickshire and West Mercia were made within the limits set by the Treasury Management Strategy. There were no breaches reported during 2016/17.

10.6 Pilot Treasury Management Indicators.

The Commissioners have historically measured and managed their exposure to treasury management risks using Treasury Management indicators governing upper limits for fixed and variable rate exposure. In 2016/17 they piloted the following indicators on a trial basis/

Security

The Commissioners measured of their exposure to credit risk by monitoring the value weighted average credit rating/credit score of their investment portfolios. Their performance is shown in the table below.

	Target
Portfolio average credit rating for Warwickshire	A+
Portfolio average credit rating for West Mercia	A+

	Achieved
Portfolio average credit rating for Warwickshire	AA
Portfolio average credit rating for West Mercia	AA-

Liquidity

During 2016/17 the Commissioners piloted a voluntary measure of their exposure to liquidity results by monitoring the amount of cash available to meet unexpected payments within a rolling three month period without additional borrowing. Whilst it is reassuring to have exceeded targets the experience gained in this pilot will influence 2017/18 targets. Their performance is shown below:

	Target
Total Cash Available for 3 months for Warwickshire	£14.2m
Total Cash Available for 3 months for West Mercia	£31.0m

	Achieved
Total Cash Available for 3 months for Warwickshire	£18.7m
Total Cash Available for 3 months for West Mercia	£37.0m

On the 31st March 2017 Warwickshire showed an overdrawn balance at the bank, this was a result of timing of cash flows, it was for one day only and at no costs, which was agreed with Lloyds Bank.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator was to control the Commissioners' exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:-

	Target
Limit on principal invested beyond the year end for Warwickshire	£5m
Limit on principal invested beyond the year end for West Mercia	£10m

Neither Warwickshire or West Mercia arranged any deals that placed money beyond 364 days in 2016/17.

Elizabeth Hall
Treasurer

Appendix A

PRUDENTIAL INDICATORS – WEST MERCIA

1. AFFORDABILITY PRUDENTIAL INDICATORS	2016/17 Estimate	2016/17 Actual	Achieved
	£'000	£'000	
Capital Expenditure	23,919	16,120	
	%	%	
Ratio of financing costs to net revenue stream	0.88	0.88	Yes
	£'000	£'000	
In Year borrowing requirement			
- in year borrowing requirement	14,959	0	Yes
	£'000	£'000	
In year Capital Financing Requirement	13,455	(1,504)	Yes
	£'000	£'000	
Capital Financing Requirement 31 March 2016	45,665	30,705	Yes
	£	£	
Affordable Borrowing Limit			
Increase per council tax payer	(£0.10)	(£0.10)	Yes
2. TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2016/17 Estimate	2016/17 Actual	Achieved
	£'000	£'000	
Authorised limit for external debt			
- Borrowing	40,000	10,000	Yes
	£'000	£'000	
Operational boundary for external debt			
- Borrowing	35,000	10,000	Yes
Upper limit for fixed rate interest exposure			
- net principal re fixed rate borrowing / investments	£40m	£10m	Yes
Upper limit for variable rate exposure			
- net principal re variable rate borrowing / investments	£5m	£0m	Yes

There was no new fixed rate borrowing in 2016/17.

PRUDENTIAL INDICATORS – WARWICKSHIRE

1. AFFORDABILITY PRUDENTIAL INDICATORS	2016/17 Estimate	2016/17 Actual	Achieved
	£'000	£'000	
Capital Expenditure	7,874	4,903	
	%	%	
Ratio of financing costs to net revenue stream	2.20	2.10	Yes
	£'000	£'000	
In Year borrowing requirement			
- in year borrowing requirement	6,124	0	Yes
	£'000	£'000	
In year Capital Financing Requirement	4,723	(1,328)	Yes
	£'000	£'000	
Capital Financing Requirement 31 March 2016	28,398	20,515	Yes
	£	£	
Affordable Borrowing Limit			
Increase per council tax payer	(£0.19)	(£0.13)	Yes
2. TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2016/17 Estimate	2016/17 Actual	Achieved
	£'000	£'000	
Authorised limit for external debt			
- Borrowing	40,000	14,944	Yes
	£'000	£'000	
Operational boundary for external debt			
- Borrowing	30,000	14,944	Yes
Upper limit for fixed rate interest exposure			
- net principal re fixed rate borrowing / investments	£40m	£14.9m	Yes
Upper limit for variable rate exposure			
- net principal re variable rate borrowing / investments	£5m	£0m	Yes

There was no new fixed rate borrowing in 2016/17.