PART ONE

To: Police and Crime Commissioner

Date: 18 September 2014

By: Ian Perkin – Treasurer to the Police and Crime Commissioner for Surrey

Title: 2013/14 Outturn Treasury Management and Prudential Indicators

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Purpose of Report/Issue:

In accordance with the Treasury Management Policy Statement and Strategy 2014 to 2017, the Police and Crime Commissioner (PCC) is required to review the annual activity and performance of the treasury management function.

Summary:

This report contains a summary of treasury management activity undertaken during 2013/14, primarily the investment of surplus cash in the last financial year, and shows the prudential indicators for the year.

In addition this report details the Statutory requirements of the CIPFA Treasury Management Code of Practice (the Code of Practice) and provides an update on the recovery of funds deposited with the failed Icelandic Banks.

Recommendation(s) -

The PCC is asked to note the contents of this report and approve the revised Prudential Indicators, shown in the appendices to this report.

Introduction -

1 Treasury Management – Statutory Requirements

1.1 Compliance with the CIPFA Code of Practice is a requirement under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The main aim is to ensure that local authorities have in place comprehensive policies and practices for the effective management and control of their treasury management activities, including the effective management and control of risk.

1.2 Treasury management is defined in the revised Code of Practice as "*the management of the organisation's investments and 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.*

1.3 The Treasury Management Policy Statement and Strategy 2014 to 2017 include a requirement that the PCC will review/approve, the following:

- An annual Treasury Management Policy Statement and Strategy
- Borrowing limits and other prudential indicators
- Six monthly reports (annual and mid-year) on activities and performance of the Treasury Management function

1.4 The Code of Practice emphasises that when assessing the performance of a treasury management provider, comparisons should only be made with other providers who have a similar risk appetite, and should always consider the security, liquidity and yield of funds invested, with security and liquidity having priority over yield.

2 Treasury Management Transactions 2013/14

The following treasury management transactions were undertaken in 2013/14:

2.1 Short Term Lending

In accordance with agreed policy, surplus cash was lent on a daily basis to Surrey County Council (SCC). The following loans were made during the year:

Number of Loans		252
Total Interest Received		£120K
Average Interest Earned	Q1	0.41%
	Q2	0.41%
	Q3	0.42%
	Q4	0.45%

The average rate of return for the year was 0.42%, above the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period of 0.36%.

2.2 Since 2009/10 the treasury management provider for the Police and Crime Commissioner for Surrey (PCC), SCC, has followed an extremely cautious approach as a direct result of the Council's experience with Icelandic banks. Moving forward into 2014/15, no significant changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite.

2.3 The cost to the PCC for the services of Surrey County Council for 2013/14 was £17,309.03.

2.4 Short Term Borrowing

No short term external borrowing was undertaken during 2013/14, as all cash balances were lent overnight allowing us the flexibility to draw on our own resources.

2.5 Long Term Borrowing

No long term external borrowing was undertaken during the year, and no external long term debt was outstanding at the year.

2.6 Future Borrowing Requirements

There is currently no requirement to borrow for the 2014/15 capital programme.

2.7 General

Surrey County Council's treasury management officers monitor cash flow on behalf of the PCC and aggregate this with their own cash flow, before making appropriate investments on behalf of both organisations. Accordingly there was no requirement to deal with brokers or bankers during 2013/14.

3 Treasury Management Prudential Code indicators

3.1 Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with good professional practice. Target indicators for 2014/15 – 2016/17 were approved by the PCC on 28th March 2014, these have been updated in the attached appendices to reflect the 2013/14 Outturn. Please note that these indicators have been prepared on the basis that the PCC's investment policy will remain unchanged.

4 Icelandic Banks Update

4.1 Surrey County Council placed £20m of deposits with two failed Icelandic Banks: Glitnir and Landsbanki. Of this £20m, the exposure for the PCC for Surrey was £1.5m (£0.75m in Landsbanki and £0.75m in Glitnir).

4.2 At its meeting of 22 October 2013, the Surrey County Council Cabinet authorised, on SCC's behalf, the Local Government Association (LGA) and its legal representatives to arrange an auction of the SCC's claim for its deposit with Landsbanki (now known as LBI hf) managed by Deutsche Bank. It authorised the Leader or Cabinet Member for Business Services, in consultation with the Chief Finance Officer and the Monitoring Officer, to make a final decision on the sale price and to report back to SCC with an update on the outcome of the auction.

4.3 The Local Government Association and its legal representatives commenced negotiations with interested third parties on SCC's behalf in order to achieve the best possible price. On 30 January 2014, this was confirmed at a level that satisfied the minimum required, resulting in proceeds of £4.1m (of which £0.3m represents the PCC's share of the investment). This includes an amount of interest due on the investment. The cost to the PCC on the sale amounted to £60k. It should be noted that £1.6m (£0.1m in respect of the PCC's share) relating to the Glitnir Bank remains in an escrow account awaiting repayment and, subject to the final processes of the Icelandic Winding Up Board. On this basis, the PCC's provision has been reduced to £0.1m to reflect this.

5 Value for Money

The PCC is committed to the principle of achieving best value in treasury management. Although returns on investment are low, this is offset by the competitive cost of the treasury management service provided by SCC. The PCC undertook a benchmarking exercise in 2013 which concluded that SCC continued to provide value for money. Future benchmarking will be undertaken inclusive of Sussex's results to gain a collaborative view on value for money.

Equalities Implications – There are no equalities implications arising from this report.

Risk- – The following risk arises from this report:

- If the PCC does not review annual performance review of treasury management activity in line with the CIPFA Treasury Management Code of Practice there is a risk of censure from the auditors and reputational damage as a consequence.

Human Rights – There are no human rights implications arising from this report.

Attachments:

Appendix 1 **–** 5 2012/13 – 2016/17 Prudential Indicators

Background papers –

This document has been prepared with due regard to:-

PCC Treasury Management Strategy

PCC Prudential Indicators 2014/15

Annual Minimum Revenue Statement 2012/13, and Annual Treasury Management Strategy 2014/15
CIPFA The Prudential Code for Capital Finance in Local Authorities – 2011 edition
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

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Prudential Code **Appendix 1**

Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Year Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
1	**Ratio of financing costs to net revenue stream**	Financing costs / net revenue stream * 100%	0.29%	0.29%	0.29%	0.28%	0.28%	The figures are positive when the PCC is a net borrower. The numbers are very small because the provision to pay internal borrowing (MRP) represents a very small proportion of our net revenue stream.
2	**Estimate of the incremental impact of capital investment decisions on the council tax precept**	(i) Forecast total budgetary requirements for the PCC based on no change to the existing capital programme *less* (ii) Forecast total budgetary requirement for the PCC with the changes to the capital programme included in the calculation. (iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result	n/a	n/a	-£0.03	-£0.03	-£0.02	These figures are negative as there is no current requirement to borrow for the capital programme. These figures represent the incremental impact of the principal of internal borrowing being repaid.

Prudential Code

Appendix 2

Prudential Indicators For Prudence

No.	Indicator	Definition		Last Year's Actual 2012/13 £'000	This Year's Actual 2013/14 £'000	Future Year Targets 2014/15 £'000	Future Year Targets 2015/16 £'000	Future Year Targets 2016/17 £'000	Comments
1	**Borrowing and the capital financing requirement**	An authority must ensure that external borrowing does not, except in the short term, exceed the capital financing requirement in the preceding year plus the estimates of any capital financing requirement for the current and next 2 financial years.		✓	✓	✓	✓	✓	It will not be necessary to finance 2014/15 capital programme from borrowing as there are available capital resources to fully finance the capital programme.
		Investments		-8,537	-26,483	-25,132	-25,986	-21,370	(a)
		External borrowing		0	0	0	0	0	(b)
		Gross external borrowing requirement/investment(-)		**-8,537**	**-26,483**	**-25,132**	**-25,986**	**-21,370**	(a) + (b)
	Capital Financing Requirement to be monitored against existing borrowing.			**13,676**	**12,948**	**12,235**	**11,534**	**10,845**	
		Is net external borrowing > total capital financing requirement?		NO	NO	NO	NO	NO	
		Management action required		None	None	None	None	None	

Prudential Code

Appendix 3

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Estimated Future Year Targets			Comments
			2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	
1	**Total Capital Expenditure**	Total capital expenditure incurred	8,249	13,434	8,250	7,150	6,850	As per the Capital Programme.
2	**Capital Financing Requirement**	Fixed assets, deferred charges, revaluation reserve, capital adjustment account plus government grants deferred (plus, for future years, future capital expenditure less usable capital receipts, grants, contributions etc.)	13,676	12,948	12,235	11,534	10,845	The figures decrease as the principal is being repaid and will increase if the capital programme is funded by borrowing.

Prudential Code **Appendix 4**

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual 2012/13 £'000	This Year's Actual 2013/14 £'000	Future Year Targets 2014/15 £'000	Future Year Targets 2015/16 £'000	Future Year Targets 2016/17 £'000	Comments
1	**Authorised Limit**	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			15,905	15,056	14,222	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	**Operational Boundary**	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities			14,459	13,687	12,929	The operational boundary provides sufficient latitude to borrow externally to fund the entire capital programme in the event that none of the anticipated capital grants or capital receipts are received.
3	**Actual External Debt**	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	1,879	1,879				These figures represent the outstanding liability for one property lease.

Prudential Code

Prudential Indicators For Treasury Management

Appendix 5A

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Years Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
1	**Treasury Management**	The PCC must adopt the CIPFA Code of Practice For Treasury Management in the Public Services	YES	YES	YES	YES	YES	

Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual		This Year's Actual		Future Years Targets						Comments
			2012/13		2013/14		2014/15		2015/16		2016/17		
2a	**Upper Limit On Variable Interest Rate Exposure**	Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments	0% - 100%		0% - 100%		0% - 100%		0% - 100%		0% - 100%		The use of variable or fixed rate loans will be decided in consultation with the PCC's Treasury Management provider (SCC) as the need arises.
2b	**Upper Limit On Fixed Interest Rate Exposure**	Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments	0% - 100%		0% - 100%		0% - 100%		0% - 100%		0% - 100%		
	Projected interest payable on borrowing (£000s)		£0		£0		£0		£0		£0		
	Projected interest receivable on investments (£000s)		-£95		-£123		-£124		-£126		-£127		
3	**Maturity Structure of Borrowing**	Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%											
			Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	
		Under 12 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		12 months and within 24 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		24 months and within 5 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		5 years and within 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		10 years and above	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
4	**Principal Sums Invested For Periods Longer Than 364 days (£000's)**	Total principal sums invested to final maturities beyond the period end	£0		£0		£0		£0		£0		The Treasury Management strategy allows for longer term investment, however at this time all investments are limited to a maximum period of 364 days.