Treasury Management Policy Statement and Strategy

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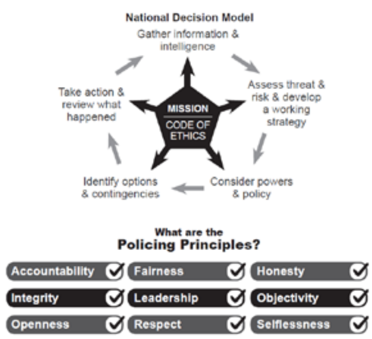

1. Purpose of Report

This report presents the updated Treasury Management Policy Statement and Strategy 2020/21 which replaces the previous strategy.

2. Summary

The Prudential Code requires the Police and Crime Commissioner (PCC) to approve a Treasury Management Strategy. In accordance with the CIPFA Code of Practice on Treasury Management, this strategy is based upon CIPFA's key recommendations, suggested policy statement and 12 treasury management practices.

The attached strategy is updated annually to reflect working practices for the PCC and any changes in legislation. There have been no significant changes since the previous strategy was approved.

3. Covid-19 Pandemic

This Treasury Management Policy Statement was drafted in advance of the 2020/21 financial year but was not reported to the Joint Audit Committee until July following meeting cancellations due to the Covid-19 Pandemic.

Although impacts of Covid-19 are widespread, reducing investment returns whilst increasing pressures on costs, reserves and cash flow monitoring, it does not fundamentally change the treasury management function included within this strategy. We have not therefore revised the Treasury Management Strategy but will include further details of any impact on returns within the next Treasury Management Report.

4. Recommendations

The Joint Audit Committee is asked to note the contents of this report.

The Police and Crime Commissioner for Surrey

Treasury Management Strategy Statement 2020/21

1. Introduction

1.1 This strategy document has been prepared with due regard to the CIPFA Prudential Code 2017, the CIPFA Code of Practice on Treasury Management 2017 and guidance issued by the Department for Communities and Local Government in relation to section 15(1)(a) of the Local Government Act 2003.

1.2 The new requirements of the Ministry of Housing, Communities and Local Government (MHCLG) revised Statutory Guidance on Local Government Investment issued in February 2018 has been considered in the Investment Strategy.

1.3 Its purpose is to set out a medium to long term strategy for investment of surplus funds and borrowing activities for the PCC. It identifies the risks and opportunities encompassed in those activities and, provides guidance for day to day decision making in these areas. In practice, these functions are carried out by SCC and therefore this document mirrors their strategy.

1.4 In accordance with *the CIPFA Code of Practice* on Treasury Management, this strategy is based upon CIPFAs key recommendations, suggested policy statement and 12 treasury management practices (TMPs), found at Appendix A.

2 Reporting Requirements

2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, 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 sustainability.

The aim of the capital strategy is to ensure that the PCC fully understands the overall long term-term policy objectives and resulting capital strategy requirements, governance and procedures and risk appetite. This document is separate to the Treasury Management Strategy and is included as Appendix B.

2.2 Treasury Management reporting

The PCC is required to review/approve, as a minimum, the following reports each year, which incorporate a variety of policies, estimates and actual outturn.

1) PCC will approve an annual Treasury Management Strategy and the Prudential and Treasury Management indicators. This covers:

- the capital plans, including prudential indicators;
- the 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 investment strategy stating the parameters on how investments are to be managed.
- PCC will approve borrowing limits and other prudential indicators
- PCC will review six monthly reports (annual and mid-year) on activities and performance of the Treasury Management function

3 Treasury Management Policy Statement

The Office of the Police and Crime Commissioner defines its treasury management activities as:

- The management of investments and cash flows, banking, money market and capital market transactions.
- The effective control of the risks associated with those activities.
- The pursuit of optimum performance consistent with those risks.

3.1 Risk appetite

The appetite for risk is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

3.2 Risk management

The monitoring and control of risk is considered to be the prime criteria by which the effectiveness of treasury management activities will be measured.

3.3 Value for money

The PCC is committed to the principle of achieving best value in treasury management. Although returns on investment remain low, this is offset by the competitive cost of the treasury management service provided by Surrey County Council (SCC).

3.4 Borrowing

The PCC holds a loan with PWLB in support of the Building the Future project along with funding the proposed capital programme.

The PCC has various options for financing borrowing, this is likely to be achieved through a mixed of internal and Public Work Lending Board (PWLB) borrowing. The main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

4 Current Arrangements

4.1 The PCC has a Service Level Agreement (SLA) with SCC to perform the treasury management function on behalf of the PCC therefore the treasury management strategy mirrors their strategy (see 5 below).

4.2 Since 1 January 2019, Orbis took over the Treasury Management function. Orbis provide a shared services partnership with Brighton and Hove City Council, East Sussex County Council and Surrey County Council, perform the day to day treasury management operations within the SLA agreement whereby cash balances are monitored on the PCC's behalf and they aggregate any PCC surpluses with their own for investment in the money market and pay interest to the PCC based on the higher of their quarterly investment rate, 7 Day LIBID or Bank of England Base Rate.

4.3 SCC's appetite for risk in terms of its treasury management activities is low/medium. A premium is placed on the security of capital in terms of investment. A major external influence on the Authority's treasury management strategy continues to be the UK's progress negotiating its exit from the European Union.

4.4 SCC use specific credit ratings to determine which institutions can be used for investments.

- Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's, other relevant factors including external advice are also taken into account.

- SCC does not expect to make any investments denominated in foreign currencies, nor any that are defined as capital by legislation, such as company shares. Non-specified investments are therefore limited to long-term investments (those that are due to mature 12 months or longer from date of arrangement).

The relevant points from the SCC Strategy for the PCC are:

4.5 The primary consideration governing the Council's investment strategy is to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking optimal rate of return or yield. SCC's objective which investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim is to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5 Surrey County Council Investment Strategy 2020/21

5.1 The Council's cash balances are expected to remain low during 2020/21. The majority of cash balances continue to be invested in money market funds and short-term unsecured bank deposits. Money Market Funds offer same-day liquidity, very low or no volatility and also ensure diversification to reduce the security risk of holding the majority of cash deposits with a limited number of UK banks.

5.2 The Council has a cash limit of £25m per counterparty/fund and a maximum of £20m to be invested with any one organisation (other than the UK Government) and a limit of £25m for any one pooled fund.

5.3 Before the start of the 2020/21 financial year, the Council's treasury management advisors Arlingclose were forecasting that the Bank Rate would remain at 0.75% until the end of 2022 although there were substantial risks to this forecast, dependant on the progression towards a post-Brexit trade arrangement and the evolution of the global economy. If the UK enters into a recession in 2020/21 there is a chance that the Bank of England could set its Bank Rate at or below zero which would then be likely to feed through to negative interest rates on all low risk, short-term investment options. In that event, security is measured as receiving the contractually agreed amount at maturity even if less than the original investment.

The full SCC Treasury management Strategy Statement can be viewed at:

https://mycouncil.surreycc.gov.uk/documents/s65753/Item%206%20-%20Appendix%201%20-%20Treasury%20Management%20Strategy%20Statement%202020-21.pdf

6 Regulatory Changes

6.1 There are no significant changes to regulations on local authority treasury management to note for 2020/21.

6.2 The PCC for Surrey surplus funds are pooled overnight with Surrey County Council and as the PCC is able to access those funds immediately upon request, they are treated as Cash and Cash Equivalents. There is minimal risk attached to these funds therefore no impairment assessment is carried out.

Background papers:

CIPFA: The Prudential Code

CIPFA: The Prudential Code, Guidance Notes

Local Government Act 2003

Surrey County Council: Treasury Management Strategy

CIPFA Treasury Management in Public Services – 2017 Edition

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Appendix A

Police and Crime Commissioner for Surrey

Treasury Management Practices (TMP)

2019 to 2022

Introduction

The objectives set out in the policy statement can be achieved through the adoption of CIPFA's 12 treasury management practices (TMPs), which deal in some detail with the following issues:

- TMP1 Risk management
- TMP2 Performance management
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods and techniques
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualification
- TMP11 Use of external service providers
- TMP12 Corporate governance

1.1 Risk Management (TMP1)

1.1.1 Liquidity

Purpose: To avoid the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the PCC's police and crime plan will be compromised.

Current arrangements

Approved minimum cash balances	£0
Approved minimum short-term investments	£0

Bank overdraft arrangements:

Net overdraft, in case of need	£20k
Government Procurement Cards, issue of cards	£1m
BACS (payment of salaries) (1 day credit arrangement)	£10m

Currently, day-to-day cash balances are monitored on our behalf under a service level agreement with Surrey County Council (SCC). They aggregate any PCC surpluses with their own for investment in the money market and pay interest to the PCC based on the highest rate from the following options:

- SCC weighted average quarterly investment rate
- 7 Day LIBID
- Bank of England Base Rate

1.1.2 Interest rate

Purpose: To avoid the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: The Prudential Code requires the PCC to fix each year the proportions of interest on borrowing and investment which may be subject to either fixed or variable rates. Since the investment activity is undertaken by Surrey County Council, it is important to ensure that any limits set by the PCC do not conflict with the County Council's prevailing limits. In order to achieve this both fixed and variable rate exposure the upper and lower limits for the PCC have been set at 0% and 100% respectively.

Surrey County Council employs a treasury consultant (Arlingclose) to advise on treasury strategy, provide economic data and interest rate forecasts.

1.1.3 Exchange rate

Purpose: To avoid the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: The PCC's investments with Surrey County Council are not at any exchange rate risk as monies are not invested in foreign currencies.

1.1.4 Inflation

Purpose: To avoid the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: Inflation has been included in the 2020/21 budget at the following rates:

	Employees	Non-pay
2020/21	2%-2.5%	1.9% on contractual commitments

1.1.5 Credit and counterparty

Purpose: To avoid the risk of failure by a third party to meet its contractual obligations under an investment, borrowing, capital, project or partnership financing arrangement, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the PCC's capital or revenue resources.

Current arrangements: The PCC's only direct counterparty in relation to treasury management is Surrey County Council. All investments made by Surrey County

Council are made in accordance with their investment policies and prevailing legislation and regulations.

1.1.6 Legal and regulatory

Purpose: To avoid the risk that the PCC, or a third party, fails to act in accordance with its legal powers or regulatory requirements, and to ensure that the PCC suffers no losses accordingly.

Current arrangements: It is a requirement of the service level agreement with Surrey County Council that they obtain satisfactory documented evidence that any counterparties are acting within their powers and that they have met the requirements of the Data Protection Act, the Money Laundering Regulations, and any other relevant legislation.

1.1.7 Fraud, error and corruption, and contingency management

Purpose: To minimise the risk that the PCC fails to identify the circumstances in which he might be exposed to losses through fraud, corruption and other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This includes the area of risk commonly referred to as operational risk.

Current arrangements: Surrey County Council has adopted the CIPFA treasury management practices and will accordingly look to minimise risk in this area. Whilst much reliance is placed upon Surrey County Council, the OPCC monitors the cash balances and interest payments on a regular basis as part of the budget monitoring function, this in turn minimises risk in this area.

1.1.8 Market value of investments

Purpose: To avoid the risk that, through adverse market fluctuations in the value of principal sums that the PCC invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Current arrangements: Interest on investments with Surrey County Council is based on the average interest on investments. SCC has embraced the spirit of the Prudential Code and CLG Guidance to invest funds prudently and have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The objective is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. SCC currently uses only those instruments for investment that have no impact on the market value of principal sums. The SCC's treasury strategy would also permit the use of:

- Accounts, deposits, certificates of deposit
- Reverse purchase agreements
- Covered bonds
- Loans bonds and bills issued or guaranteed by national governments
- Bond, equity and property funds

Their proposed use would be subject to prior approval by the County's Audit & Governance Committee.

1.2 Performance management (TMP2)

1.2.1 The following methods, policies and benchmarks will be applied for evaluating the impact of treasury management decisions:

- 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 Surrey County Council (SCC). It is considered that SCC continue to provide value for money.

- Banking Services
  The PCC currently uses the services of the HSBC.

1.3 Decision-making and analysis (TMP3)

1.3.1 Day-to-day investment decisions are taken on behalf of the PCC by Surrey County Council.

1.3.2 A quarterly record is provided by Surrey County showing the daily balances that have been invested and the average internal rate of return applied.

1.4 Approved instruments, methods and techniques (TMP4)

The PCC has adopted the approved instruments, methods and techniques recommended by Surrey County Council, as follows:

1.4.1. Investment

The following instruments are available to use for investment:

- Treasury Bills
- Deposits with banks, building societies and local organisations (and certain other bodies)
- Certificates of Deposits with banks or building societies
- Sterling Money Market Funds
- Government Debt Management Agency Deposit Facility
- Corporate Bonds
- Covered Bonds

Surrey County Council will lend to the following organisations on a short-term basis although their current strategy is to minimise cash balances to reduce interest costs; no lending is done to any organisation on a long-term basis:

- Banks and Building societies meeting the lending criteria
- Local Authorities as set out in the Local Government Act 2003
- Enhanced Cash/Corporate Bonds pooled funds

1.4.2 Approved Methods of Raising Finance

The following list specifies the borrowing instruments which may be utilised in seeking to achieve the Treasury Management objectives.

Short-term: All instruments repayable within one year.

Long-term: Loans from Public Works Loan Board (PWLB), Bonds and Mortgages.

Overdraft: The PCC may borrow by overdraft, i.e. short-term, from authorised banks or the Bank of England.

Leasing: Operating leases fall outside of the capital controls, therefore this form of finance should be considered where possible for the purchase of equipment and vehicles (the PCC's current policy is to purchase vehicles outright under the Joint Transport Service led by Sussex Police).

1.5 Organisation, clarity and segregation of responsibilities, and dealing arrangements (TMP5)

1.5.1 The overall responsibility for treasury management lies with the PCC, who has plenary powers in relation to all borrowing and investment matters.

1.5.2 The Treasurer (PCC's Chief Finance Officer) takes overall responsibility for implementing the treasury management policy.

1.5.3 The Treasurer is responsible, under Section 151 of the Local Government Act 1972, for ensuring that the treasury management operation complies with the needs of the PCC and that its financial affairs are properly administered.

1.5.4 Day to day responsibility for treasury management rests with the Treasurer.

1.5.5 The day-to-day administration of treasury management is carried out by staff of Surrey County Council under the terms of a service level agreement. The approved activities of the Treasury Management Providers are as follows:

- Cash flow management (daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Interest rate exposure management

- Dealing with brokers and other external finance specialists

Surrey County Council currently use the following brokers:

- RP Martin/BGC
- Tullet Prebon
- Tradition

1.6 Reporting requirements and management information arrangements (TMP6)

1.6.1 The Treasurer will:

- prepare an annual Treasury Management Policy Statement and Strategy for the PCC to approve.
- recommend borrowing limits and other Prudential Indicators to be considered by the PCC as part of the budget setting process.
- report every six months (at the end of year and mid-year) to the PCC on the activities and performance of the Treasury Management function.

1.7 Budgeting, accounting and audit arrangements (TMP7)

1.7.1 Annual revenue budgets will include estimates of expected earnings on investment based on cash flow predictions for the forthcoming year and an examination of economic conditions and forecasts considered jointly with the PCC's treasury management provider at an annual review meeting.

1.7.2 Annual revenue budgets also include the expected cost of the provision of treasury management services and any direct overheads. This estimate is for an annual fee for the work carried out by Surrey County Council, under the terms of a service level agreement. The payment to Surrey County Council is based on 17% of the gross salary costs of their appointed Senior Finance Officer for treasury, 8.5% of the annual gross salary of a SCC Strategic Finance Manager plus 20% on top of those costs to cover the costs of administrative expenses. The total cost for 2019/20 was £18.4k.

1.8 Cash and cash flow management (TMP8)

1.8.1 Under the terms of the current arrangement with Surrey County Council, daily cash flow monitoring is carried out by the treasury management provider supported by information supplied by the Office of the Police and Crime Commissioner relating to:

- Precept and grant income flows
- Cheque and BACS payment runs

- Payroll payment runs
- Other known receipts and payments in excess of £100,000 per transaction

1.8.2 In reviewing the effectiveness of treasury management services, the Office of the Police and Crime Commissioner maintains a historic record of actual cash flow, daily balances, returns on investment from Surrey County Council and a variety of benchmark interest rates including*:*

- LIBID 7 day rates
- SCC average rate of return
- Base Rate

1.9 Money laundering (TMP9)

1.9.1 Surrey County Council is required to comply with the Money Laundering Regulations as are all UK professionals when they engage in financial and investment activities.

1.10 Training and qualifications (TMP10)

1.10.1 The PCC is aware of the growing complexity of treasury management in general, and its application to the public sector in particular. Modern treasury management demands appropriate skills, including*:*

- A knowledge of money and capital market operations
- An awareness of available sources of funds and investment opportunities
- An ability to assess and control risk, and
- An appreciation of the implications of legal and regulatory requirements

1.10.2 The PCC has a personal development system that should identify staff requiring training and support in treasury management functions. This is balanced with the service provided by SCC.

1.11 Use of external service providers (TMP11)

1.11.1 Treasury management functions are provided by Surrey County Council under a service level agreement***.***

1.12 Corporate governance (TMP12)

1.12.1 This document should be read in conjunction with the scheme of Governance documents which includes financial regulations and a scheme of delegation.

1.12.2 It is considered that this document taken as a whole with the service level agreement with Surrey County Council for the provision of treasury management activities, demonstrates a robust, rigorous and disciplined set of processes that are designed to balance prudence and sound risk management with the pursuit of the optimum return on investment.

1.12.3 Reporting arrangements have been designed to demonstrate openness and clarity whilst maintaining an appropriate split of duties and responsibilities.

1.12.4 In respect of the organisation's dealings with counterparties, external service providers and other interested parties, clear procedures have been developed to enable the PCC, as far as is practicable, to monitor their adherence to the legal or regulatory regimes under which they operate.

Office of the Police and Crime Commissioner for Surrey

Capital Strategy

The Police and Crime Commissioner for Surrey

2020/21 – 2023/24

March 2020

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SURREY POLICE

CAPITAL STRATEGY

1. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) and Surrey Police and forms part of the authority's integrated revenue, capital and reserves planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

The Capital Programme is developed through a set governance route of approval at the Strategic Change Board, CFO Approval Board and Chief Officers. There are three main areas which feature within the Capital Programme; Fleet, ICT and the Estate strategy, all have independent strategies in place which demonstrate the requirements from each individual area.

Throughout this document the term Surrey is used to refer to the activities of both the PCC and the Force.

2. OBJECTIVES

The CIPFA revised 2017 Prudential and Treasury Management Codes require that for 2020/21, all local authorities will 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 understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the Force priorities;

- set out how the Force identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Business cases;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the medium term finance plan planning period;
- ensure the strategy has an overall balance of risk on a range on investments over timespan, type of investment and rate of return, and,
- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.

3. CAPITAL EXPENDITURE - DEFINITION

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to Surrey generally for a period of more than one year, e.g. land and buildings, ICT, business change programmes, equipment and vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is Surrey's plan of capital works for future years, including details on the funding of the schemes.

4. CAPITAL VS. TREASURY MANAGEMENT INVESTMENTS

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Annual Treasury Management Strategy Statement.

The CIPFA Treasury Management Code recognises that some local authorities are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police forces in England and Wales, Surrey does not have a General Power of Competence, which gives councils the power to do anything an individual can do provided it is not prohibited by other legislation. As such, Surrey is prevented from entering into commercial investment activities.

5. GOVERNANCE OF THE CAPITAL PROGRAMME

5.1 Governance processes are in place along with contract standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the Medium Term Financial Plan. These include:

- The PCC is ultimately responsible for approving the overall Capital Budget which is included with the annual Precept Proposal and presented to the Surrey Police and Crime Panel.
- The Change Assessment Meeting assesses the organisation value of new initiatives and oversees progression through the pre-delivery stages.
- The Change Assessment Board review change proposals and make recommendations to the appropriate governance board for a decision. This board has the authority to make decisions on business cases that have minimal impact and do not require revenue or capital investment of more the £100k per year (with finance approval).
- The Strategic Change Board agree final business cases for all Surrey/Sussex collaborated change where funding has been identified or is already included in the revenue and capital budgets.
- The CFO Approval Board oversee, scrutinise and approve or recommend for approval business cases for capital investment and one off or on-going revenue investment that is considered business as usual
- The Extended Chief Officer Group will be consulted when business cases require Chief Officers or PCC oversight due to value or operational impact.
- The Joint Chief Officer Meeting will be consulted when Collaborated Surrey/Sussex business cases require Chief Officers or PCC oversight due to value or operational impact.

6. LINKS TO OTHER CORPORATE STRATEGIES AND PLANS

The PCC produces his Police and Crime Plan, the current version covers the period 2018-2020.

http://www.surrey-pcc.gov.uk/wp-content/uploads/2018/05/Surrey-Police-16pp-A4-Police-and-Crime-Plan-2018-2020-1.pdf

The Chief Constable produces a Force Business Plan which complements the Police and Crime Plan.

<https://www.surrey.police.uk/SysSiteAssets/media/downloads/surrey/about-us/business-plan-2017.pdf>

To support these overarching documents a number of interrelated strategies and plans are in place, such as Medium Term Financial Plan which includes the capital programme, Capital Strategy, Treasury Management and Annual Investment Strategy.

The operation of all these strategies and plans is underpinned by the Scheme of Governance which shows how the OPCC and the Chief Constable comply with the principles of ‘good governance’ and sets out the arrangement in place for effective governance and financial management. The Scheme of Governance comprises:

- Surrey Code of Corporate Governance*: This describes how the PCC and Chief Constable achieve the core principles of ‘good governance’.*

- Framework of Decision-Making and Accountability**:** *This describes how the PCC will make/publish key decisions and fulfil his/her responsibilities to hold the Chief Constable to account. It also sets out the role of the Audit Committee.*

- Surrey-Sussex PCC Scheme of Delegation**:** *This sets out the key roles of the PCC/Chief Constable and those functions they delegate to others.*

- Memorandum of Understanding and Schedule**:** *The MOU describes how the PCC and Chief Constable will work together and ensure sufficient support in areas such as estates management, procurement, finance, HR, communications and corporate development.*

- Financial Regulations**:** *These set out the framework for managing the PCC's financial affairs.*

- Contract Standing Orders**:** *These describe the rules for the procurement of goods, works and services. Contracts are issued in the name of the PCC and the Chief Constable operates within the parameters of Contract Standing Orders.*

7. THE CAPITAL BUDGET SETTING PROCESS

7.1 Introduction

Surrey Police is committed to rolling medium term revenue & capital plans that usually extend for 4 years, setting out the anticipated level of expenditure and the associated funding. The plans are drawn up, reassessed and extended annually and, if required, re-prioritised to enable the aims and objectives established in the Force Business Plan to be achieved, along with the Force Commitment to support national drivers like the National Policing Vision for 2025.

The Medium Term Financial Plan provides the infrastructure and major assets through capital investment, enabling Surrey Police to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

Key focuses of the Capital Programme:

- To ensure the estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and progressing the Estate Strategy.

- To ensure provision is made for ICT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services, as per the ICT Strategy.

- To ensure provision is made for transport within the Joint Transport service across Surrey and Sussex as per the Joint Transport Services Asset Management Plan.

- The maintenance and replacement of other core assets where necessary, e.g. communication infrastructure.

The plan acknowledges the financial position of Surrey Police and maximises both the available financial resources and the capacity that Surrey has to manage change projects.

7.2 Force Collaboration & Wider Sector Engagement.

Although Surrey Police has its own Capital Strategy and Medium Term Financial Plan the natural drivers that encourage local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of the Surrey Capital Strategy is to acknowledge regional and national partnership working, both with other forces and in a the wider context of engagement with Local Authorities & Councils, and other Emergency Services, to improve overall service to the public.

7.3 Identifying Capital Expenditure / Investment Requirements

The capital programme is developed through the set governance route of approval at the Strategic Change Boards, CFO Approval Board and Chief Officer Group. The programme is supported by the respective strategies for the Estate, Fleet, ICT and business led requirements. The revenue impact of any such proposals are also included in the medium term financial planning model where the revenue account, if necessary, is charged with corresponding interest payable and “minimum revenue provision” costs when borrowing is required.

7.4 Affordability and Financial Planning.

The overall financial position of Surrey and hence the scope for future capital expenditure, must take into consideration the combination of the revenue budget, capital programme as well as the position on reserves. The revenue and capital budget positions are intertwined as achieving the Surrey priorities may require revenue expenditure or investment in capital items, depending on what is needed, and one impacts the other.

The revenue Medium Term Financial Plan will identify the potential financial position for Surrey for the next four years and will include forecasts on inflation, committed growth requirements, forecast productivity and efficiency savings, assumptions around grant and council tax funding and any other information introduced during the budget process.

The revenue position influences the capital position in terms of potential affordability of support for Direct Revenue Financing (DRF) or debt charges (for external borrowing) whereas the capital bid process influences the revenue position in terms of both revenue consequences of capital programmes and also the requirement to financially support capital investment, either through DRF or external borrowing.

The extent to which the annual revenue budget, through the 4 year forecast, is expected to be able to support the capital programme is a key factor to overall financial planning and is becoming more so as other sources of funding cease to be available. The annual police capital grant provides only a small fraction of the funding required to maintain the Forces assets.

7.5 Capital Sustainability

The financial position is changing. For many years Surrey has benefitted from substantial capital reserves, supported by the sale of operational buildings or police houses.

As we move forward through the next 4 years and beyond the picture moves away from funding of the capital programme through use of accumulate reserves and into a position of funding through either DRF or external borrowing for specific projects.

Beyond the next 4 years almost all capital investment will have been funded from revenue contributions. This is expected to be during a continued period of revenue pressure and uncertainty. The strategy is focused around the type of asset that needs to be financed, the aim is that short life assets such as vehicles and IT will be financed from DRF whereas long life assets such as buildings, where necessary, are financed by borrowing.

The Surrey Strategy is therefore to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through more efficient and mobile use of police personnel, enabled by improved Information and Communication Technology systems and other core infrastructure, for example, a connected vehicle fleet and building assets.

The Surrey strategy will also be influenced by and take account of national visions for policing, regional and local priorities.

8. Monitoring of the capital programme

The Chief Constable's CFO submits capital monitoring reports to both the Chief Constables Management Team and the PCC on a regular basis throughout the year. These reports are based on the most recently available financial information, showing spending to date and compare projected expenditure with the approved capital budget.

The Force request the PCC to approve the carry forward any capital budget slippage which is presented as a two year programme. This enables the Force to run a flexible programme allowing schemes to be deferred where there are genuine reasons for a delay, and also allows schemes that have made good progress to bring forward future allocations into the current year.

9. Funding Strategy and Capital Policies

This section sets out Surrey policies and priorities in relation to funding capital expenditure and investment.

9.1 Government Grant

The Police Service only receives limited financial support from the Home Office; annual capital grant is currently less than £0.2m per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.

Specific capital grants may be received for agreed capital works.

9.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register. They cannot be spent on revenue items and are used to help finance the capital programme (see 7.5 Capital Sustainability).

9.3 Revenue Funding

Recognising that the pool of assets available for sale is declining direct revenue contribution is seen as a sustainable funding alternative. An appropriate provision for this is included in both the annual revenue budget and the medium term financial plan. As Surrey moves forward this is understood to become the limiting factor for capital investment as it balances annual revenue funding priorities with long term capital investment strategies.

9.4 Prudential Borrowing

Local Authorities, including the Police, can set their own borrowing levels based on their capital needs and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so Surrey Police needs to ensure it can fund the repayment costs. The Surrey Minimum Revenue Provision Statement sets out a prudent approach to the amount set aside for the repayment of debt.

9.5 Reserves and balances

Unspent capital grant and capital receipt monies can be carried forward in the Balance Sheet until they are required to fund the capital programme.

Surrey has also set aside earmarked revenue reserves to help fund capital expenditure, most notably the PCC Estate Strategy Reserve.

HM Treasury guidance on capital projects recognises that there is a potential for projects costs to exceed the initial assessment. This is called Optimism Bias and relates to any project type, although it can have a particularly high impact when relating to the development of complex ICT or business change programmes. Surrey does not currently have an Optimism Bias Reserve but may consider this in the future. Surrey has acknowledged the use of the optimism bias for the Equip programme which if required will be a call on general reserves.

9.6 Third party capital contributions

On occasion Surrey will receive income from a third party (usually a local authority) who have agreed to contribute towards an asset (e.g. ANPR cameras) that Surrey will own.

9.7 Leasing

Surrey may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and both the Chief Constable's Chief Finance Officer (CFO) and the PCC's Chief Finance Officer (CFO) must be satisfied that leasing provides the best value for money method of funding the scheme before a recommendation is made to the PCC.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

IFRS 16 Leases

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.

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 introduction of the IFRS 16 lease accounting standard in April will increase the level of assets and liabilities, 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 in the near future. The capital programme budget will therefore need to be adjusted for the estimated cost of this expenditure in 2020/21.

9.8 Procurement and Value for Money

Procurement is the purchase of goods and services. Surrey has a Procurement Department that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Scheme of Governance, which includes Contract Standing Orders and Financial Regulations. Guidance on this can be sought from the Procurement team.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

10. Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessment process Surrey will look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented. In support of this initiative:

- Surrey has a joint ICT Department with Sussex Police and a number of ICT and business change programmes are being delivered collaboratively.

- Surrey is currently implementing a joint Enterprise Resource Planning solution (Equip) with Sussex and Thames Valley Police.

- Other capital schemes, most notably new technology programmes, are being delivered across the SE region is support of the SE Regional Information Technology (SERIT) strategy.

11. Management Framework

The PCC owns all assets, including short life assets, such as ICT, equipment and vehicles.

Although the PCC owns all land and buildings, on a day to day basis, the Head of Property manages the estate on his behalf.

The Chief Constable's CFO manages the medium term capital plan and the annual capital budget and provides regular updates to the Finance Planning and Performance Board who, collectively, maintain oversight of planned expenditure.

The PCC's CFO is responsible for developing and then implementing the Treasury Management Strategy Statement, which includes the Annual Investment Strategy.

Having approved the medium term capital plan and the annual capital budget in February each year the PCC formally holds the Chief Constable to account for delivery of capital projects.

12. Risk Management

Risk is the threat that an event or action will adversely affect Surrey's ability to achieve its desired outcomes and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of Surrey's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in complex and costly business change programmes.

Surrey accepts there will be a certain amount of risk inherent in delivering the desired outcomes of Police and Crime Plan and will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, Surrey will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

The Chief Constable's CFO and the PCC's CFO will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

12.1 Funding Capacity Risk

This is the risk that identified project costs are either understated or escalate during the project lifecycle, for example if project scope changes. This risk is mitigated as far as possible by the identified monitoring process and controls.

12.2 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly, Surrey will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

12.3 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

12.4 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

There is also a risk that external interest rates will rise which may impact on the cost of borrowing externally. This risk will be managed by the Chief Constable's CFO and PCC's CFO by reviewing interest rates when borrowing is required and consult with Treasury Management advisors when required.

12.5 Exchange Rate Risk

This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.6 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.7 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, Surrey will understand the powers under which the investment is made.

Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

12.8 Fraud, Error and Corruption

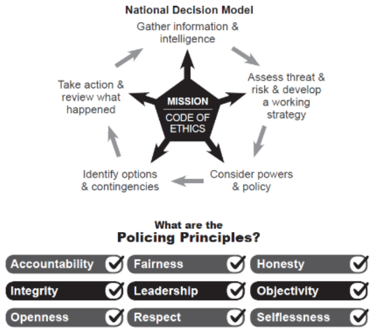
This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Surrey has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

13. Other Considerations

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.

March 2020

Required for:	PCC Performance Meeting
Security Classification:	**Official**
Handling information if required:	n/a
Suitable for publication:	*Yes*
Title:	2019/20 Outturn Treasury Management report
Version:	n/a
Purpose:	To review the annual activity and performance of the treasury management function.
ACPO / Strategic Lead:	PCC
National Decision Model compliance:	*Yes*
Date created:	7 July 2020
Date to be reviewed:	
AUTHOR:	
Name:	Kelvin Menon
Job Title:	PCC Treasurer
Telephone number:	01483 638724
Email address:	Kelvin.Menon@surrey.pnn.police.uk



Summary:

This report contains a summary of treasury management performance activity undertaken during 2019/20 up to and including 31 March 2020.

In addition this report details the statutory requirements of the CIPFA Treasury Management Code of Practice (the Code of Practice).

Recommendation(s) -

The PCC is asked to note the contents of 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 comprehensive policies and practices are in place for the effective management and control of treasury management activities, including the effective management and control of risk.

1.2 Treasury management is defined in the 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 2019 to 2022 includes a requirement that the PCC will review/approve, the following:

- An annual Treasury Management Policy Statement and Strategy
- An annual Capital 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.

1.5 The Police and Crime Commissioner (PCC) operates a balanced revenue budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties. The priority is to provide adequate security and liquidity before considering optimising investment return.

2 Treasury Management Transactions Annual Outturn for 2019/20

The treasury management function is carried out by Surrey County Council (SCC) under a service level agreement. Under this agreement the following treasury management transactions were undertaken during 2019/20 up to 31 March 2020:

2.1 Short Term Lending

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

2018-2019		**2019-2020**
£31.409m	Average Investment	£28.653m
252	Number of Loans	126
£0.213m	Total Interest Received	£0.214m
0.50%	Average Interest Earned Q1	0.75%
0.75%	Average Interest Earned Q2	0.75%
0.75%	Average Interest Earned Q3	0.75%
0.76%	Average Interest Earned Q4	0.72%
0.69%	Total Average Interest Earned	0.74%

The average rate of return for the year 2019-2020 was 0.74% based upon an average investment of £28.7m and is above the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period of 0.54%. Appendix 1 shows the % interest rates achieved with appendix 2 showing the actual interest amounts received. Appendix 3 shows that investment balances continue to fall due to use of reserves to fund the budget and reduction of capital receipts being received.

2.2 The primary consideration governing the Surrey County Council's Strategy is to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking optimal rate of return or yield and to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim is to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

2.3 The Bank of England base rate decreased from 0.75% to 0.25% on 11 March 2020 and then decreased again to 0.10% on 19 March 2020 as a result of the uncertainty pertaining to the coronavirus pandemic.

2.4 The cost to the PCC for the services of Surrey County Council for 2018/19 was £18,351 and is forecast to remain at a similar level for 2020/21.

2.5 Short Term Borrowing

No short term external borrowing was undertaken during 2019/20, all cash balances were lent overnight allowing us the flexibility to draw on our own resources.

2.6 Long Term Borrowing

No new borrowing was taken during the year. The PWLB loan taken out in March 2019 has a balance remaining of £15.1m which supports the Building the Future project and capital programme. This loan represents equal instalments of principal (EIP) together with interest on the balance outstanding and will be fully repaid in 29 years March 2049. Trends and variations in the PWLB interest rates are illustrated in Appendix 4.

2.7 Future Borrowing Requirements

The long-term borrowing requirement continues to be periodically reviewed. The PCC has various options for financing future borrowing, this is likely to be achieved through a mixture of internal borrowing and Public Work Lending Board (PWLB) borrowing. The main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

2.8 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 2019/20.

2.9 Economic Update

A review of economic performance to date and outlook can be found at Appendix 5.

3 Value for Money

The PCC is committed to achieving value for money in treasury management. Although returns on investment appear low this is offset by the competitive cost of the treasury management service provided by SCC.

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

Risk – The following risk arises from this report:

- Minimising risk to ensure the Commissioner's principal sums are safeguarded is achieved by undertaking all Treasury Management activity during the year in accordance with the approved Treasury Management Policy Strategy and associated contracts with SCC. Maximising income is considered secondary to this main aim.

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

Attachments:

Background papers –

This document has been prepared with due regard to:-

PCC Treasury Management Strategy

CIPFA The Prudential Code for Capital Finance in Local Authorities – 2017 edition

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

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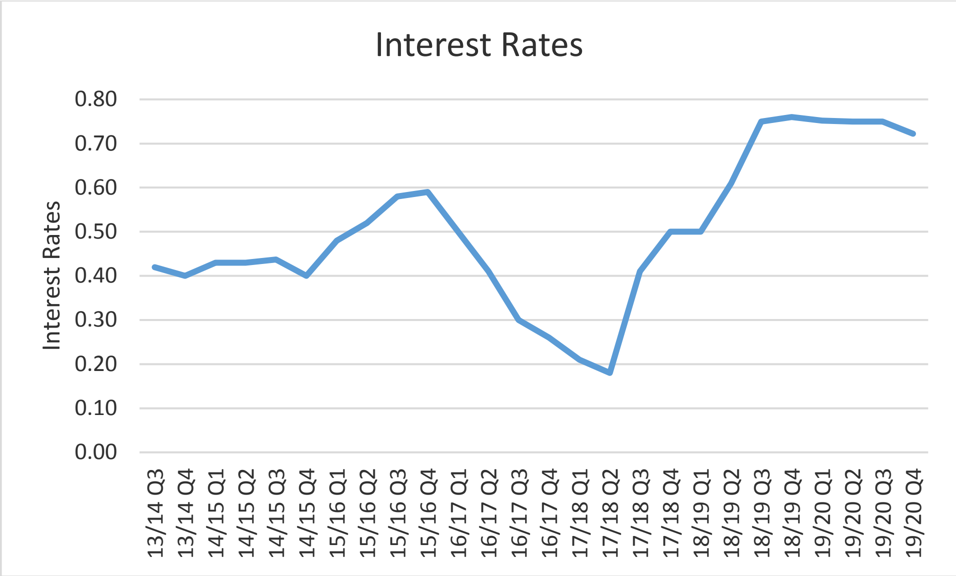
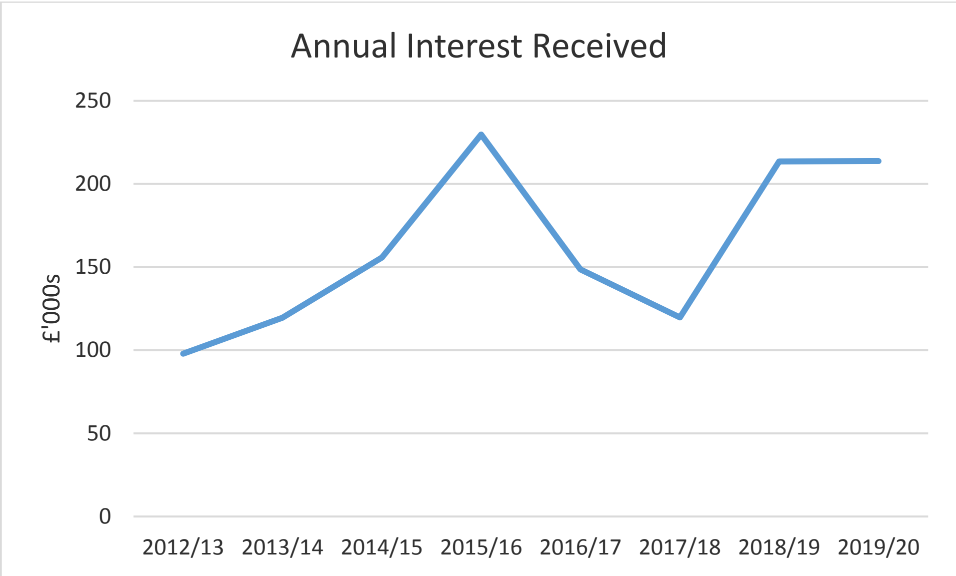
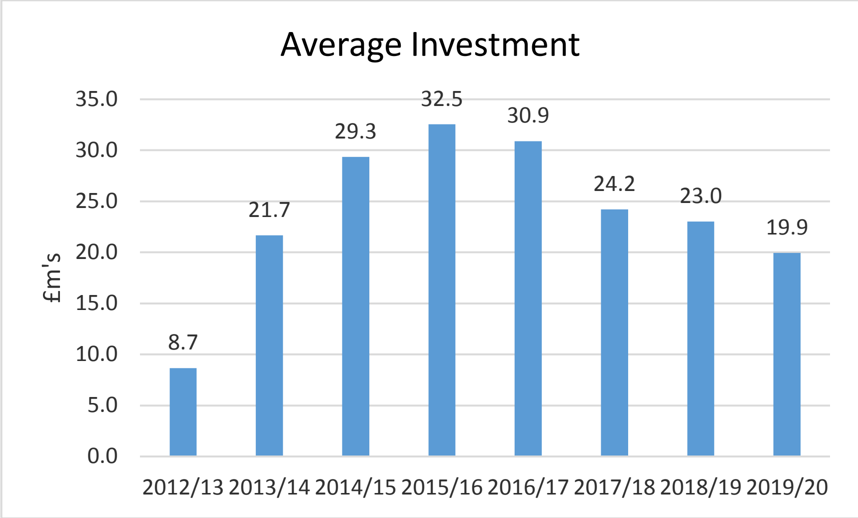
APPENDIX 1 – INTEREST RATE PERFORMANCE



APPENDIX 2 – INTEREST RETURN PERFORMANCE



APPENDIX 3 – INVESTMENT PORTFOLIO PERFORMANCE



APPENDIX 4 – PWLB certainty rates to 31 March 2020

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/19	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/20	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/19	08/10/19	03/09/19	03/09/19	03/09/19
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/19	19/03/20	19/03/20	19/03/20	31/12/19
Average	1.83%	1.77%	2.00%	2.56%	2.40%

There was a sharp fall in interest rates during the first six months of the year. However on 9 October 2019, HM Treasury imposed an additional 1% margin over gilts to all PWLB rates until 11 March 2020 when this was partially reversed at the same time as the Government announced in the Budget a programme of increased spending in infrastructure expenditure. It also announced a consultation with local authorities on possibly further amending these margins, which ended on 4 June.

APPENDIX 5 – Economic Update

UK. Brexit. The main issue in 2019 was over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. A general election in December settled the matter and enabled the UK to leave the EU on 31 January 2020. This still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline as second and third rounds of negotiations were cancelled due to the virus.

Economic growth in 2019 was very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 very poor at -0.2%, quarter 3 returning to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the general election in December settling the Brexit issue. GDP statistics in January were disappointing with 0.0% growth and then everything changed following the **coronavirus outbreak**. It is likely that closedown of whole sections of the economy will result in a drastic fall in GDP. The extent of the damage to businesses by the end of the lock down period is uncertain, there could be a second wave of the outbreak, and it is not known how long it will take to develop a vaccine.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, there were no changes until March 2020; at this point the coronavirus outbreak posed a huge threat to the economy of the UK. Two cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE)** and purchases of gilts (mainly) by the Bank of England of £200bn. The Government introduced measures to subsidise jobs and help businesses while the country was in lock down and it is uncertain how long it will take for the economy to recover.

Inflation has been 1.5 – 2.0% and as the world economy heads into recession the supply of oil has fallen sharply in price. Other prices will also be under downward pressure while wage inflation is on a downward path likely to continue.

Employment had been growing healthily through the last year until the pandemic hit in March 2020. Wage inflation over the last year was significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, retail sales will be hit by lockdown restrictions where people can't leave their homes for non-essential shopping.