ITEM 05

To: Police and Crime Commissioner Management Meeting

Date: 18th November 2013

By: Ian Perkin – Treasurer, Office of the PCC

Title: Treasury Management: Mid-Year Review of Activity 2013/14, Prudential Indicators and Update on Service Level Agreement Negotiations

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Purpose of Report/Issue:

To comply with the CIPFA (Chartered Institute of Public Finance & Accountancy) Treasury Management Code of Practice, this report has been updated with mid-year figures together with the Prudential Indicators.

Recommendation(s) -

The Police and Crime Commissioner (PCC) and Chief Constable are 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. Its key 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 To comply with the Code of Practice the following reports are produced:

For the Joint Audit Committee

- Annual Strategy
- Annual Treasury Management Report

For the PCC Management Meeting

- Treasury Management Mid-year Report

2 Treasury Management Mid-Year Report 2013/14

The following treasury management transactions were undertaken between 1st April 2013 and 30th September 2013 inclusive:

2.1 Short Term Lending

In accordance with agreed policy, surplus cash was lent on a daily basis to Surrey County Council (SCC). The returns on those loans made during the half year are shown as follows:

Total Interest Received		£53K
Average Interest Earned	Q1	0.41%
	Q2	0.37%

The average rate of return for the period was 0.39%. By comparison the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period was 0.36%.

2.2 The PCC's treasury management provider, Surrey County Council, has continued to implement a risk averse approach to its treasury management strategy. It did not breach any of the criteria in its approved investment strategy in respect of counterparty, sector or national limits, or the maximum term of a deposit for individual counterparties: criteria which are designed to protect the security and liquidity of funds. Deposits were only placed with UK banks and building societies. For these reasons, there continues to be a low level of risk associated with the PCC's existing treasury management arrangements.

2.3 Short Term Borrowing

No short term external borrowing was undertaken during the period as all cash balances were lent overnight allowing us the flexibility to draw on our own resources to fund necessary revenue and capital expenditure.

2.4 Long Term Borrowing

No long term external borrowing was undertaken during the period, and no external long term debt was outstanding as at 30th September 2013.

2.5 Future Borrowing Requirements

It is planned that the approved 2013/14 capital programme of £17.4m will be financed fully by capital resources therefore there are no borrowing requirements for 2013/14.

Unapplied capital receipts, totalling £2.4m were brought forward from 2012/13 and capital receipts for 2013/14 are expected to exceed capital expenditure.

3 Treasury Management Prudential Code indicators

3.1 The Prudential Code provides a framework to enable local authorities to self-regulate their capital expenditure and borrowing plans by setting a range of prescribed estimates and limits (the Prudential Indicators) to ensure affordability, prudence and sustainability. It also requires authorities to ensure that all treasury management practices are in accordance with good practice.

3.2 Target indicators for 2013/14 – 2016/17 were presented to the Joint Audit Committee in June 2013. These indicators have been updated based on the most recent capital programme estimates and are set out at Appendices 1-5 and show a satisfactory performance.

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. Surrey Police has a provision of £0.4m in the event that a proportion of the deposits would not be recovered.

4.2 On 28th October 2011, the Supreme Court of Iceland ruled that UK local authorities' claims qualified as priority claims. This means that the values of local authorities' claims in the Icelandic administrations, qualify for priority settlement. These decisions are now final and there is no further right of appeal.

4.3 The current position is that 55% of the Landsbanki deposit and approximately 84% of the Glitnir deposits have been repaid, with expected recovery rates now at 100% in respect of both banks (subject to exchange rate fluctuations). Landsbanki made another repayment in September 2013 of £528,568 of which £39,642 represents Surrey Police's share. The balance owed on each deposit is shown in the following table.

Balances owed on Icelandic bank deposits - Joint SCC/Surrey Police

Counterparty	Period (days)	Total Principal £000	Rate %	Principal repaid £000	Principal outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	5,521	4,479
		20,000		13,906	6,094

Balances owed on Icelandic bank deposits - Surrey Police

Counterparty	Period (days)	Principal £000	Rate %	Principal repaid £000	Principal outstanding £000
Glitnir	364	375	6.25%	314	61
Glitnir	366	375	6.20%	314	61
Landsbanki	732	750	5.90%	414	336
		1,500		1,042	458

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

Risk- – The following risk arises from this report:

- If the PCC does not produce a mid-year 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 2013/14 Prudential Indicators (revised)

Background papers –

This document has been prepared with due regard to:-

CIPFA The Prudential Code for Capital Finance in Local Authorities – 2011 Edition

CIPFA The Prudential Code for Capital Finance in Local Authorities Guidance Notes – 2013 Edition.

CIPFA Treasury Management in the Public Services: Code of Practice Guidance Notes for Local Authorities including Police and Fire Authorities – 2011.

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Prudential Code - 2013/14 **Appendix 1**

Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	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%	0.35%	0.29%	0.28%	0.27%	The numbers are very small because financing costs represents a very small proportion of our net revenue stream and interest rates on investments have fallen considerably and are forecast to remain low.
2	**Estimate of the incremental impact of capital investment decisions on the council tax precept**	(i) Forecast total budgetary requirements for the authority based on no change to the existing capital programme *less* (ii) Forecast total budgetary requirement for the authority 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			-£0.28	-£0.03	-£0.03	The figures increase as the revenue costs associated with the planned borrowing for the capital programme increase (MRP and interest payable). They will reduce as the principal is repaid.

Prudential Code - 2013/14

Prudential Indicators For Prudence

No.	Indicator	Definition		Last Year's Actual 2012/13 £'000	This Year's Estimate 2013/14 £'000	Future Year Targets 2014/15 £'000	Future Year Targets 2015/16 £'000	Future Year Targets 2016/17 £'000	Comments
1	**Net borrowing and the capital financing requirement**	An authority must ensure that net 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.		✓	✓	✓	✓	✓	The sale of Police Stations and Police Houses are on-going and therefore it is unlikely that there will be a requirement to finance 2013/14 to 2016/17 capital programmes from borrowing.
		Investments		-£8,537	-£10,404	-£14,732	-£17,798	-£13,937	(a)
		External borrowing		£0	£0	£0	£0	£0	(b)
		Net external borrowing requirement/investment(-)		**-£8,537**	**-£10,404**	**-£14,732**	**-£17,798**	**-£13,937**	(a) + (b)
	Capital Financing Requirement to be monitored against existing borrowing.			**£13,676**	**£12,970**	**£12,278**	**£11,598**	**£10,930**	
		Is net external borrowing > total capital financing requirement?		NO	NO	NO	NO	NO	
		Management action required		None	None	None	None	None	

Prudential Code - 2013/14 **Appendix 3**

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	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	17,367	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	12,970	12,278	11,598	10,930	The figures increase as the amount of the capital programme funded by borrowing increases; and it will reduce in the future as the principal is repaid.

Prudential Code - 2013/14

Appendix 4

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
			£000	£000	£000	£000	£000	
1	**Authorised Limit**	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			16,794	15,957	15,134	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			15,267	14,506	13,758	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 long term liabilities for finance leases.

Prudential Code - 2013/14

Prudential Indicators For Treasury Management **Appendix 5A**

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

CIPFA Code of Practice on Treasury Management - 2013/14 **Appendix 5B**

Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual		This Year's Estimate		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 Authority'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		It is assumed that internal resources will be used before borrowing externally.
	Projected interest receivable on investments (£000s)		-£95		-£100		-£101		-£102		-£103		
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.