**To:** **Office of Police and Crime Commissioner**

**Date:** **12th January 2016**

**By:** **Ian Perkin – Treasurer to the Office of Police and Crime Commissioner**

**Title:** **Treasury Management: Mid-Year Review of Activity 2015/16 and Updated Prudential Indicators**

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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.

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## Recommendation(s) -

The Police and Crime Commissioner (PCC) is asked to note the contents of this report.

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## Introduction -

### 1 Treasury Management Mid-Year Report 2015/16

The following treasury management transactions were undertaken between 1st April 2015 and 30th September 2015 inclusive:

1.1 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 | | £100K |
| Average Interest Earned | Q1 | 0.48% |
| Average Interest Earned | Q2 | 0.52% |

The average rate of return for the period was 0.50%. By comparison the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period was 0.36%.

Interest income has slightly increased from £120k in 2013/14 to £155k in 2014/15. 2015/16 investment income is set to increase further still as receipts for the first two quarters total £100k.

1.2 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.

1.3 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.

1.4 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 2015.

1.5 Future Borrowing Requirements

It is planned that the 2015/16 capital programme approved in February 2015 of £9.7m will be financed fully by capital resources therefore there are no borrowing requirements for 2015/16.

Unapplied capital receipts, totalling £12.0m were brought forward from 2014/15 and capital receipts for 2015/16 are expected to at least match if not exceed capital expenditure.

## 2 Treasury Management Prudential Code indicators

2.1 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.

2.2 Target indicators for 2015/16 – 2017/18 were presented to the Police and Crime Commissioner in June 2015. These indicators have been updated with 2014/15 year end actuals and based on the most recent capital programme estimates and are set out at Appendices 1-5.

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

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**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.

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

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**Attachments:**

Appendix 1 – 5 2015/16 Prudential Indicators (revised)

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**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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**Contact details -**

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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 |
|---|---|---|---|---|---|---|---|---|
| | | | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | |
| 1 | **Ratio of financing costs to net revenue stream** | Financing costs / net revenue stream * 100% | 0.29% | 0.27% | 0.23% | 0.22% | 0.22% | 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*<br>(ii) Forecast total budgetary requirement for the PCC with the changes to the capital programme included in the calculation.<br>(iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result | n/a | n/a | -£0.16 | -£0.02 | -£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 2013/14 £'000 | This Year's Actual 2014/15 £'000 | Future Year Targets 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'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 2015/16 capital programme from borrowing as there are available capital resources to fully finance the capital programme. |
| | | Investments | -27,061 | -31,230 | -26,432 | -28,752 | -24,336 | (a) |
| | | External borrowing | 0 | 0 | 0 | 0 | 0 | (b) |
| | | **Gross external borrowing requirement/investment(-)** | **-27,061** | **-31,230** | **-26,432** | **-28,752** | **-24,336** | (a) + (b) |
| | **Capital Financing Requirement to be monitored against existing borrowing.** | | **11,069** | **10,304** | **9,670** | **9,045** | **8,428** | |
| | | **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 |
|---|---|---|---|---|---|---|---|---|
| | | | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 | |
| 1 | **Total Capital Expenditure** | Total capital expenditure incurred | 13,434 | 5,677 | 9,742 | 9,539 | 8,461 | As per the Capital Programme 201516 P9 |
| 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.) | 11,069 | 10,304 | 9,670 | 9,045 | 8,428 | 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 | This Year's Actual | Future Year Targets | | | Comments |
|---|---|---|---|---|---|---|---|---|
| | | | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 | |
| 1 | **Authorised Limit** | Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities | | | 12,801 | 12,045 | 11,298 | 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 | | | 11,637 | 10,950 | 10,271 | 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 | 0 | | | | 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 |
|---|---|---|---|---|---|---|---|---|
| | | | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | |
| 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**

**Appendix 5B**

**Treasury Management Indicators**

| No. | Indicator | Definition | Last Year's Actual | This Year's Actual | Future Years Targets | | | Comments |
|---|---|---|---|---|---|---|---|---|
| | | | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | |
| 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) | | -£119 | -£155 | -£167 | -£168 | -£170 | |

| No. | Indicator | Definition | Lower | Upper | Lower | Upper | Lower | Upper | Lower | Upper | Lower | Upper | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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% | | | | | | | | | | | |
| | | 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% | |

| No. | Indicator | Definition | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | Comments |
|---|---|---|---|---|---|---|---|---|
| 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 investmetns are limited to a maximum period of 364 days. |