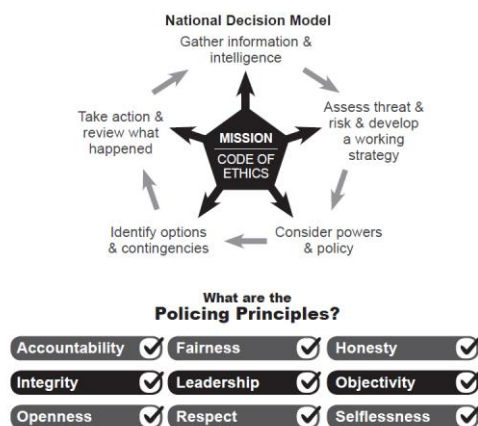




2021/22 Mid-Year Treasury Management report to JAC

Required for:	<i>Joint Audit Committee Meeting January 2022</i>
Security Classification:	Official
Handling information if required:	N/A
Suitable for publication:	Yes
Title:	2021/22 Mid-Year Treasury Management report
Version:	N/A
Purpose:	To review the annual activity and performance of the treasury management function.
ACPO / Strategic Lead:	PCC CFO
National Decision Model compliance:	Yes
Date created:	6 January 2022
Date to be reviewed:	

AUTHOR:	
Name:	Kelvin Menon
Job Title:	PCC's Chief Finance Officer
Telephone number:	07870 378553
Email address:	Kelvin.Menon@surrey.pnn.police.uk



1. Introduction

Purpose of the Report:

- 1.1. The purpose of this report is to summarise the Treasury Management performance for the nine months to 31 December 2021.
- 1.2. The mid-year performance of the Treasury Management Service during 2021/22 is reported in line with CIPFA's Code of Practice on Treasury Management and the PCC's 202/21 Treasury Management Strategy Statement (TMSS).
- 1.3. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that those charged with governance and scrutiny receive regular updates on treasury management activity.
- 1.4. The Police and Crime Commissioner for Surrey - 2021/22 Treasury Management Strategy Statement can be found on the Police and Crime Commissioner's website as follows;
<https://surrey-pcc.gov.uk/wp-content/uploads/2020/07/12.pdf>

Terms of Reference:

- 1.5. As set out in the Joint Audit Committee's terms of reference, the JAC will provide advice and recommendations to the PCC in relation to the following area of Financial Reporting;
 13. Ensure that an effective system of scrutiny is in place in respect of Treasury Management, strategy, policies and practices.

2. Treasury Management – Statutory Requirements

- 2.1. The legal status of the Treasury Management Code in England and Wales is derived from regulations issued under the Local Government Act 2003. The Capital Finance and Accounting Regulations 2003 explicitly require English authorities (now including policing bodies) to "have regard" to the Treasury Management Code.
- 2.2. The Treasury Management Code and the Prudential Code are closely linked and regard to the Prudential Code is required when setting limits to the level of affordable borrowing under section 3(5) of the 2003 Act.
- 2.3. Treasury Management is defined in the Prudential Code 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."*
- 2.4. The Local Government Finance Act 1992 sets a 'balanced budget requirement' whereby the budget for the financial year is calculated and council tax charges are set to meet the expenditure after taking into account other sources of income.
- 2.5. The Local Government Act 2003 requires local authorities (including policing bodies) to create and keep under review the limits of how much money they can afford to borrow. The processes that must be followed in setting these limits are described in the Prudential Code.
- 2.6. The 2003 England and Wales Regulations place a duty to charge a 'minimum revenue provision' (MRP) to the revenue account, which is deemed to be prudent.
- 2.7. The Statutory Guidance on Local Authority Investments in England (MHCLG 2018) makes it clear that borrowing should never be done for the explicit purpose of making an investment return and that borrowing in advance of need purely in order to profit from the investment of the extra sums borrowed is against the principles of the statutory framework and the Prudential Code.
- 2.8. The MHCLG Statutory Guidance on Local Government Investments (MHCLG, 2018) stresses the

prudent investment strategy order of security, liquidity and yield.

- First and foremost, ensure the security of principal sums invested, i.e. ensure we get back the full investment.
- Then ensure the liquidity needed i.e. funds are available when needed by considering the length of an investment.
- Only when the above two conditions are satisfied should the yield or return on investment be considered.

2.9. The Treasury Management Code recommends that the PCC should, as a minimum, report:

- An annual **Treasury Management Strategy Statement** (TMSS) before the start of the year
- An annual **Capital Strategy**
- An **Annual Report** on Treasury Management Activities, Performance and Non-Compliance
- A **Mid-Year Report** on Treasury Management Activities, Performance and Non-Compliance
- Treasury Management **Prudential Indicators** including borrowing limits

2.10. Adherence to the above legislation aims to ensure the PCC for Surrey have comprehensive policies and practices in place for the effective management and control of their treasury management activities, including the effective management and control of risk.

3. Treasury Management Mid-Year Report to 31 December 2021

3.1. 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 in 2021/22 and hence includes up to 31 December 2021.

3.2. The Council account for the Surrey Police and Crime Commissioner's cash balances they manage as short-term borrowing, the balance of which was £18.5m as at 31 December 2021.

3.3. There was no significant change in the Capital Financing Requirement which was within approved limits along with other Prudential Indicators.

Short Term Lending

3.4. In accordance with agreed policy, surplus cash was lent on a daily basis to SCC. The following loans were made during the period to 31 December 2021.

2020-2021 Full year		2021-2022 Quarters 1-3
£27.401m	Average Investment	£32.339m
253	Number of Loans	190
£47K	Total Interest Received	£26k
0.31%	Average Interest Earned Q1	0.10%
0.14%	Average Interest Earned Q2	0.10%
0.13%	Average Interest Earned Q3	0.13%
0.10%	Average Interest Earned Q4	
0.16%	Total Average Interest Earned	0.11%

The average rate of return for the year 2020-21 was 0.17% and the average rate of return for the first three quarters of the year 2021-22 was 0.11% based upon an average investment of £32.3m and is above the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period of -0.07%. Appendix 1 shows the interest rate received with appendix 2 showing the actual interest received.

Appendix 3 shows that investment balances started to fall from 2016/17 due to the use of reserves to fund the budget and the reduction in capital receipts received. Interest income received also falls in 2016/17 but fluctuates due to an increase in interest rates for 2018/19 and then a sharp decrease in 2020/21 due to Covid.

- 3.5. 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. No sums were invested for more than one year during 2021-22 up to 31 December 2021.
- 3.6. The weighted average return on all investments the council received in the quarter to 30 September 2021 was 0.02%. This compared to the average Bank of England (BoE) base rate of 0.10% for the same period. SCC currently pay with higher of; the London Inter-Bank BID rate, the Bank of England Rate or the SCC rate.
- 3.7. Ultra-low short-dated cash rates (which have been a feature since March 2020 when Bank Rate was cut to 0.1%) have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.
- 3.8. The Bank of England increased the Base Rate from 0.10% to 0.25% on 16 December 2021.
- 3.9. Interest rates on many investments are now so low that there is a risk going forward that for some short-term deposits could exceed the interest that could be earned.
- 3.10. The cost to the PCC for the services of Surrey County Council for 2020/21 was £20,746 and is expected to remain at a similar level for 2021/22.

Other Investment Activity

- 3.11. The definition of investments in the CIPFA's revised Treasury Management Code now covers all financial assets well as other non-financial assets which are held primarily for financial return. Surrey Police does not currently hold any non-treasury investments.

Short Term Borrowing

- 3.12. No short term external borrowing was undertaken during 2020/21 or up to 31 December 2021, all cash balances were lent overnight allowing us the flexibility to draw on our own resources.

Long Term Borrowing

- 3.13. An external loan with PWLB was taken out on 11 March 2019 to support the Building the Future (BtF) project. This loan was for £15.635m with a loan method of Equal Instalments of Principle (EIP) running over 30 years to 11 March 2049 with an interest rate of 2.34%.
- 3.14. The PCC also has historical internal borrowing of £7.830m relating to capital expenditure incurred prior to 01 April 2008 and a further £10.815m since which is being repaid over periods of 5-30 years. Use of internal resources in lieu of borrowing by the PCC continues to be the most cost effective means of funding capital expenditure. This also lowers the overall treasury risk by reducing both external debt and temporary investments.
- 3.15. No new external borrowing was taken in the first nine months of 2021/22.
- 3.16. Further external borrowing may be required over the next few years and is currently at the planning stage to fund the proposed capital programme and (BtF) going forward. The PCC has various options for financing borrowing, this is likely to be achieved through a mixture of internal and Public Work Lending Board (PWLB) borrowing. The PWLB remains the preferred source of

borrowing given the transparency and control that its facilities continue to provide. 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.

Future Borrowing Requirements

- 3.17. The latest 2021/22 capital programme currently indicates approximately £8m external borrowing may be required before the end of 2021/22. This is under regular review and further borrowing in the future is highly likely.

Surrey County Council

- 3.18. 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 for the PCC of Surrey to deal with brokers or bankers during 2020/21 or since up to 31 December 2021.

Value for Money

- 3.19. The PCC is committed to achieving value for money in treasury management. Actual returns on investment appear low, however this is partly due to the low rates available during the current economic climate and is also offset against the competitively low cost of the treasury management service provided by SCC.

4. Treasury Management & Prudential Indicators to 31 December 2021

- 4.1. **Prudence Limits.** The PCC must ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year.

No.	Indicator	ACTUAL	BUDGET	FORECAST	
		2020/21 £'000	2021/22 £'000	2021/22 £'000	
1	Borrowing and the capital financing requirement	✓	✓	✓	<input type="checkbox"/>
	Investments	(12,680)	(14,239)	(11,301)	a
	External borrowing	0	18,099	8,027	b
	External borrowing requirement/investment(-)	(12,680)	(3,274)	(3,274)	a+b
	CFR	26,547	43,493	33,153	
	External borrowing > CFR?	NO	NO	NO	
	Management action required	None	None	None	

- 4.2. **Capital Expenditure Limits.** These indicators assume that external borrowing will be used but do not commit the PCC to that level of spend or a particular method of financing.

No.	Indicator	ACTUAL	BUDGET	FORECAST
		2020/21 £'000	2021/22 £'000	2021/22 £'000
1	Total Capital Expenditure	13,325	19,277	19,844

No.	Indicator	ACTUAL	BUDGET	FORECAST
		2020/21 £'000	2021/22 £'000	2021/22 £'000
2	Capital Financing Requirement (CFR)	26,547	43,493	33,153

4.3. External Debt Limits. All treasury management activities undertaken during the year to date in 2021/22 comply fully with the CIPFA Code of Practice and the Surrey Police approved Treasury Management Strategy. Compliance with specific investment limits, the authorised borrowing limit and operational boundary for external debt, as demonstrated below:

No.	Indicator	ACTUAL	ORIGINAL ESTIMATE	REVISED FORECAST
		2020/21 £'000	2021/22 £'000	2021/22 £'000
1	Authorised Limit	32,122	52,627	40,115
2	Operational Boundary	29,202	47,842	36,468
3	Actual External Debt	14,563	14,042	14,042
3	Total Long Term Debt (Internal & External)	26,547	43,493	33,153

4.4. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not considered a compliance failure. Total debt did not exceed the operational boundary in any period during 2021/22 for the period to 31 December 2021.

4.5. Maturity Structure of Borrowing. This indicator is set to control exposure to refinancing risk and the following table illustrates the length of time that current actual fixed rate borrowing is maturing.

No.	Indicator	ACTUAL	ORIGINAL ESTIMATE	REVISED FORECAST
		2020/21	2021/22	2021/22
3	Treasury Management Debt Maturity			
	26-30 years	100%	100%	100%

4.6. Principal Sums Invested for Periods Longer than one year. Surrey Police have no investment sums planned or actual that exceed 364 days.

4.7. Prudential Indicator Compliance. All of the indicators for the 2021/22 period to 31 December 2021 were compliant. The following table shows the current year compliance against the Prudential Indicators set for 2021/22. Only those indicators where boundaries are set are shown below:

Category	Indicator	Definition	2021/22 Indicator Set	2021/22 Indicator Actual	Compliant	Notes
Prudence	Borrowing and the Capital Financing Requirement	Borrowing must not exceed the Capital Financing Requirement (CFR) in the current year	Borrowing £13.640m CFR £35.449m	Actual Borrowing £14.042m Actual + Planned Borrowing = £21.801m Planned Net Debt £10.500m CFR £33.153m	Yes	External Borrowing is less than CFR
External Debt	Authorised Limit	Authorised Limit for External Debt	£40.115m	Actual External Debt £14.042m Total Debt including planned borrowing £21.801m	Yes	Borrowing is less than limit
Operational Boundary	Level of debt required for the capital program	Must not exceed level set	£36.468m	£33.153m	Yes	Borrowing is less than limit
Treasury	Upper Limit on Variable Rate exposure	Proportion of investments at variable rate	0% to 100%	0% to 100%	Yes	No specific limit set allows flexibility for investments
Treasury	Upper Limit on Fixed Interest Exposure	Proportion of Investments at fixed rate	0% to 100%	0% to 100%	Yes	No specific limit allows flexibility for investments
Treasury	Principle sums invested for more than 364 days	Maximum that can be invested for more than 364 days	0%	0%	Yes	No investments made lasting longer than 364 days
Treasury	Maturity Structure of Borrowing	Limits on maturity of loans	0% to 100%	0% to 100%	Yes	No specific limit allows flexibility for borrowing decisions to achieve best value

5. Conclusions

- 5.1.** The PCC has complied with relevant statutory and regulatory stipulations, which require the PCC to identify the levels of risk associated with its treasury management activities.
- 5.2.** During the nine months to 31 December 2021 the PCC complied with legislative and regulatory requirements.
- 5.3.** The Chief Finance Officer confirms compliance with the approved TMSS for 2021/22 and that a prudent investment approach has been followed with priority given to security and liquidity of amounts invested over actual yield achieved.
- 5.4.** Risk management considerations:

Associated risks have been considered and adequate control measures implemented. All Treasury Management activity is carried out in accordance with the approved Treasury Management Strategy Statement, which aims to minimise risk to ensure the PCC principal sums are safeguarded. Maximising income is considered secondary to this main aim.

If the PCC does not review annual performance of treasury management activity in line with the CIPFA Treasury Management Code of Practice there is a risk that poor management of public funds could occur and go unnoticed, resulting in censure from the auditors and reputational

damage as a consequence.

5.5. There are no equality or Human Right implications arising from this report

5.6. Relevant legislation and guidance has been complied with in the delivery of the Treasury Management activities.

6. Decisions Required

6.1. The Chief Finance Officer invites the Joint Audit Committee Members to review the 2021-22 Treasury Management Mid-year Report and recommend for approval by the PCC.

7. Attachments / Background Papers

7.1. Appendix 1 - **Interest Rates Received**

7.2. Appendix 2 - **Actual Interest Amounts Received**

7.3. Appendix 3 - **Average Investment Balances**

7.4. Appendix 4 - **Economic Update**

7.5. Appendix 5 - **Regulatory Update**

7.6. Appendix 6 - **PWLB certainty rates**

7.7. Background sources detailing compliance requirements:

- The PCC for Surrey's Treasury Management Strategy Statement
- CIPFA Treasury Management in Public Services Code: Guidance Notes for Local Authorities including Police and Fire Authorities (2018 Edition)
- CIPFA The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018 Edition)
- MHCLG MRP Guidance and Investment Guidance
- Local Government Finance Act 1992
- Local Government Act 2003 (England and Wales)
- The Capital Finance and Accounting Regulations 2003
- International Financial Reporting Standards (IFRS) in the Code of Practice on Local Authority Accounting in the United Kingdom (2021/22 Edition)

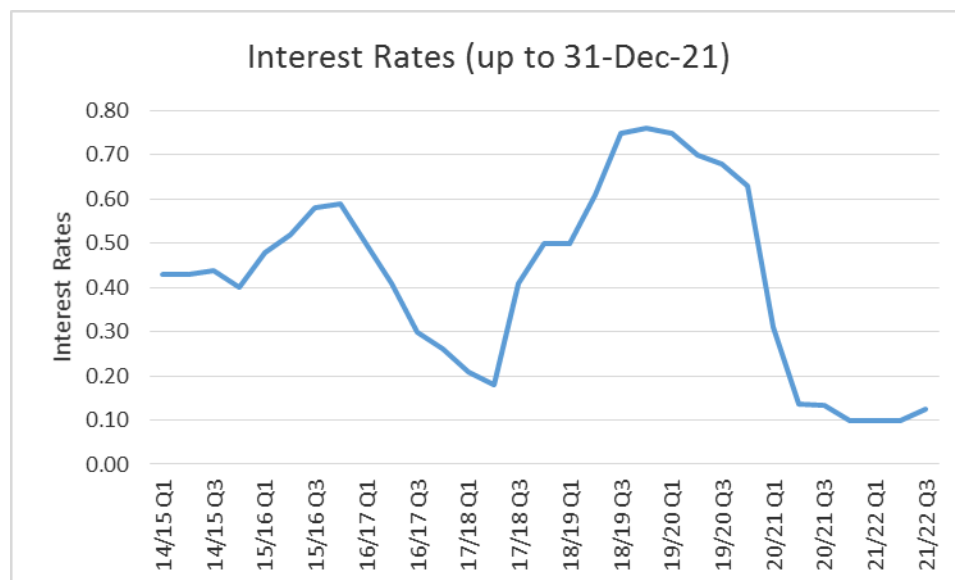
8. Contact Details

Name: Miranda Kadwell

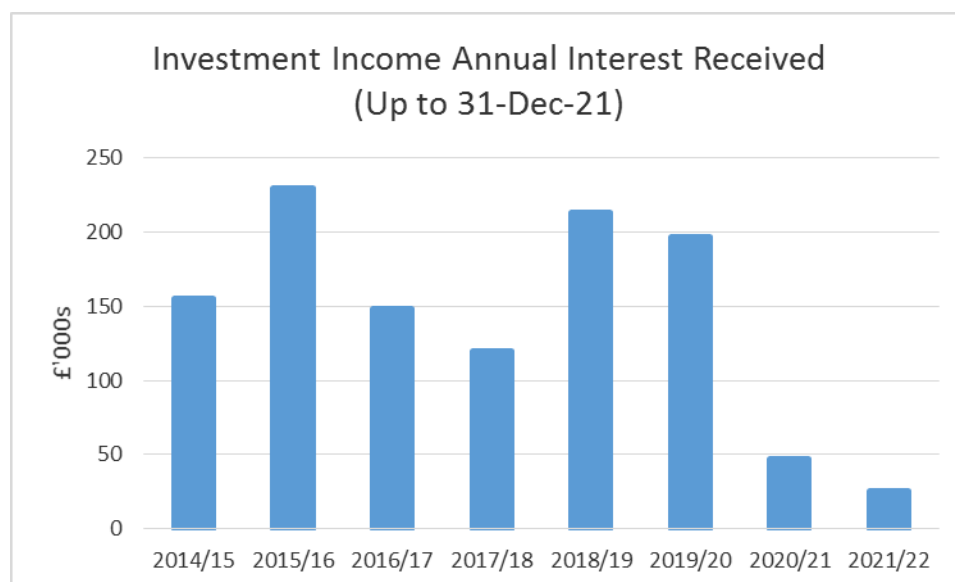
Job Title: Chief Accountant

Email address: Miranda.Kadwell@sussex.pnn.police.uk

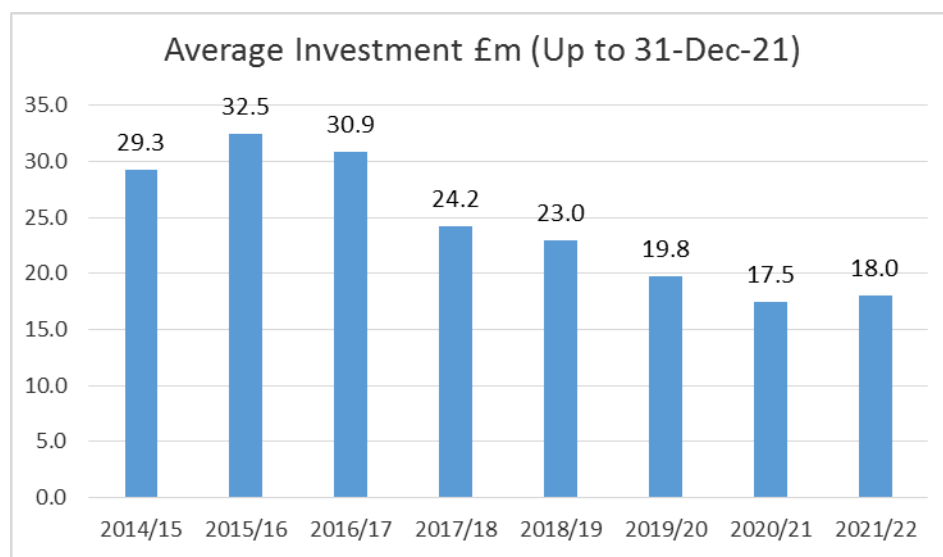
APPENDIX 1 - Interest Rates Received



APPENDIX 2 - Actual Interest Amounts Received



APPENDIX 3 - Average Investment Balances



APPENDIX 4 - Economic Update

Economic Update

Economic recovery from the Covid-19 pandemic continued to dominate the year. The impact on Treasury Management activities is limited as it has resulted in very low interest rates which support our strategy of minimising cash balances and meeting our borrowing requirement with short-term debt.

The Bank of England's Monetary Policy Committee (MPC) voted 7-2 on 4th November 2021 to leave the Bank Rate unchanged at 0.10% and made no changes to its Quantitative Easing programme at £895 billion, due to finish by the end of this year. The Bank of England Monetary Policy Committee voted again **on 16 December to increase the Bank of England base rate to 0.25%** from 0.1%. The rise came despite concerns that the Omicron variant might derail the economy by triggering consumers to spend less.

HMRC interest rates are linked to the Bank of England base rate and as a consequence of the change in base rate, HMRC interest rates on late payments are set to increase from 27 December 2021 for quarterly instalment payments and 4 January 2022 for non-quarterly instalment payments whereas repayment interest rates will remain unchanged.

Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. Some of those could potentially be at least partially offset by consumers spending "excess savings" accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

Forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year. Investors have priced in multiple rises in Bank Rate to 1% by 2024. While advisors indicate the Bank Rate will rise, it is by a lesser extent than expected by markets.

Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher

COVID-19 vaccines. These are the game changers which boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines

can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

APPENDIX 5 – Regulatory Update

Revision to CIPFA Codes

In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some local authorities for investment purposes although this did not apply to Surrey Police. In June, CIPFA provided feedback from this consultation.

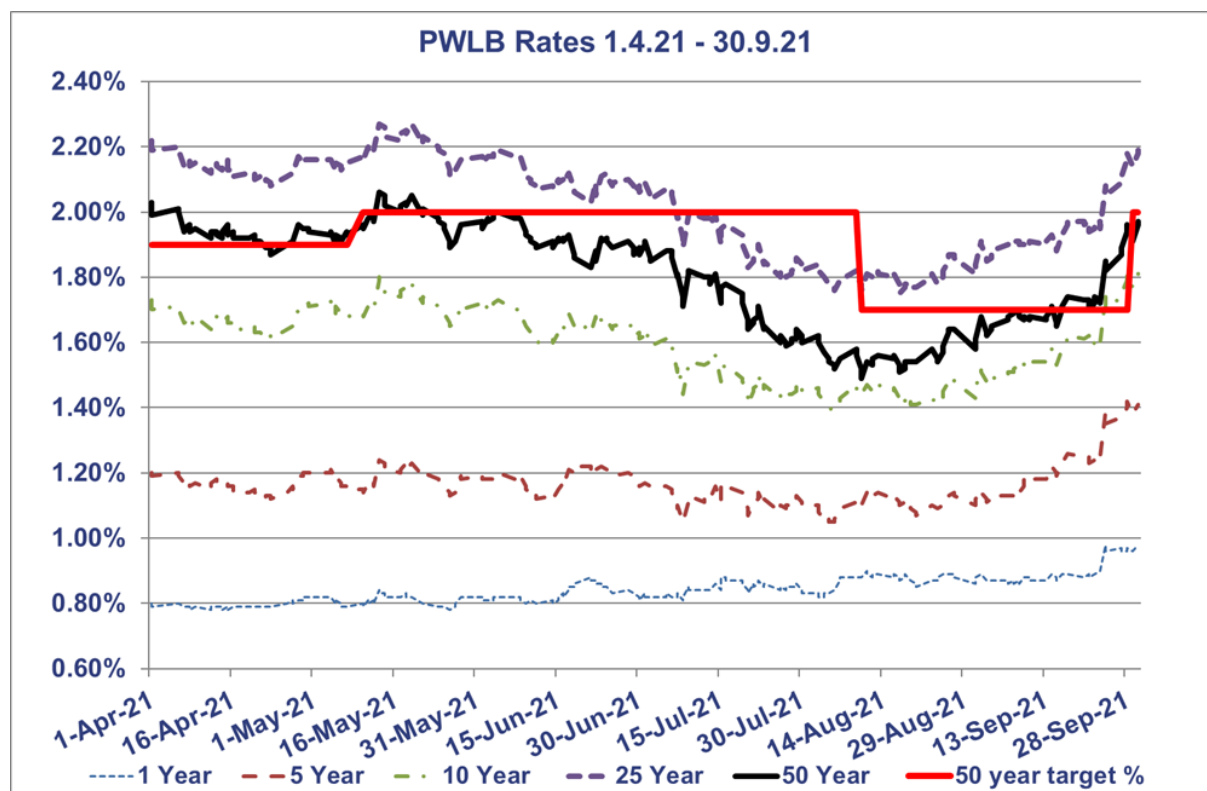
In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes which include:

- Clarification that local authorities must not borrow in order to invest primarily for financial return;
- The requirement to categorise investments for Treasury purposes, commercial purposes and for service delivery purposes (Surrey Police do not undertake any for commercial purposes);
- The introduction of Investment Management Practices (IMP's) by which local authorities will need to start monitoring their non-treasury investment portfolios;
- The requirement to assess the proportionality of non-treasury investments in the authorities overall financial capacity; and
- Some revisions in the prudential indicators, including the inclusion of the liability benchmark to measure the need to borrow.

These revisions, if implemented as drafted, are not expected to have a significant impact on Surrey Police's activities but may increase the reporting requirements in respect of non-treasury investments and other items.

APPENDIX 6 - PWLB certainty rates

The graph below illustrates the general trends in PWLB interest rates for the six months to September 2021.

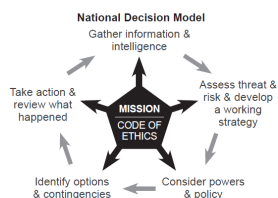




Treasury Management Policy Statement and Strategy

Required for:	Joint Audit Committee March 2021
Security Classification:	Official
Handling information if required:	n/a
Suitable for publication:	Yes
Title:	Treasury Management Policy Statement and Strategy 2021/22
Version:	n/a
Purpose:	To report the updated Treasury Management Policy Statement and Strategy to the Joint Audit Committee
ACPO / Strategic Lead:	PCC
National Decision Model compliance:	Yes
Date created:	23 March 2021
Date to be reviewed:	

AUTHOR:	
Name:	Kelvin Menon
Job Title:	PCC Treasurer
Telephone number:	01483 638724
Email address:	Kelvin.Menon@surrey.pnn.police.uk



What are the Policing Principles?

Accountability	✓	Fairness	✓	Honesty	✓
Integrity	✓	Leadership	✓	Objectivity	✓
Openness	✓	Respect	✓	Selflessness	✓

1. Purpose of Report

This report presents the updated Treasury Management Strategy Statement 2021/22 which replaces the previous strategy.

1. Terms of Reference

The Joint Audit Committee (JAC) provides independent assurance to the Police and Crime Commissioner (PCC) and Chief Constable and helps to ensure efficient, effective and adequate assurance arrangements are in place for good governance and financial standards.

As set out in the Joint Audit Committee's terms of reference, the JAC will provide advice and recommendations to the PCC in relation to the following area of Financial Reporting:

13. Ensure that an effective system of scrutiny is in place in respect of Treasury Management, strategy, policies and practices.

2. Summary

The Police and Crime Commissioner (PCC) approves an annual Treasury Management Strategy in accordance with CIPFA's Code of Practice for Treasury Management and Prudential Code.

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

In accordance with the CIPFA Code and MHCLG Guidance, a revised Treasury Management Strategy Statement can be approved by the PCC and implemented at any time during the financial year.

3. 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 are invited to review and comment on the 2021/22 Treasury Management Strategy Statement prior to approval by the Police and Crime Commissioner.

The Police and Crime Commissioner for Surrey

Treasury Management Strategy Statement 2021/22

1. Introduction

- 1.1 This strategy document has been prepared with due regard to the CIPFA Prudential Code 2018, the CIPFA Code of Practice on Treasury Management 2018 derived from regulations issued under the Local Government Act 2003.
- 1.2 The requirements of the Ministry of Housing, Communities and Local Government (MHCLG, 2018) have been considered in the Investment Strategy. The Statutory Guidance on Local Authority Investments in England (MHCLG 2018) makes it clear that borrowing should never be done for the explicit purpose of making an investment return and that borrowing in advance of need purely in order to profit from the investment of the extra sums borrowed is against the principles of the statutory framework and the Prudential Code.
- 1.3 The MHCLG Statutory Guidance on Local Government Investments (MHCLG, 2018) stresses the prudent investment strategy order of security, liquidity and yield.
 - First and foremost, ensure the security of principal sums invested, i.e. ensure we get back the full investment.
 - Then ensure the liquidity needed i.e. funds are available when needed by considering the length of an investment.
 - Only when the above two conditions are satisfied should the yield or return on investment be considered.

The PCC will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the PCC's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs.

- 1.4 The Local Government Finance Act 1992 sets a 'balanced budget requirement' whereby the budget for the financial year is calculated and council tax charges are set to meet the expenditure after taking into account other sources of income. A key part of the treasury management function is to ensure that cash flow supporting the budget is adequately planned, with cash being available to meet commitments when it is needed. Surplus monies are invested at low risk, with due consideration to security of capital, liquidity and rate of return.
- 1.5 The second main function of treasury management is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need, monitoring longer term cash flow to ensure that the PCC can meet capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.
- 1.6 The contribution the treasury management function makes to the group is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance
- 1.7 This strategy for investment of surplus funds and borrowing activities for the PCC 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.
- 1.8 The PCC's Chief Financial Officer is the financial adviser to the PCC as required under the Police Reform and Social Responsibility Act 2011 and has statutory responsibility to manage his/her financial affairs as set out in sections 112 and 114 of the Local Government Finance Act 1988, and the Accounts and Audit Regulations 2015.

For Treasury Management this includes:

- ensuring regularity, propriety and Value for Money (VfM) in the use of public funds;
- advising the PCC on the robustness of the estimates and the adequacy of financial reserves;
- securing the treasury management function, including loans and investments;

- advising, in consultation with the Chief Executive on the safeguarding of assets, including risk management and insurance

2 Reporting Requirements

2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes (2018 editions) require all local authorities to prepare 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**.

The PCC has not engaged in any commercial investments and has no non-treasury investments.

2.2 Treasury Management reporting

The PCC is currently required to receive and approve, as a minimum, three reports each year, which incorporate a variety of policies, estimates and actuals.

- An annual **Treasury Management Strategy Statement** (TMSS) before the start of the year
- An annual **Capital Strategy**
- An **Annual Report** on Treasury Management Activities, Performance and Non-Compliance
- A **Mid-Year Report** on Treasury Management Activities, Performance and Non-Compliance
- Treasury Management **Prudential Indicators** including borrowing limits

Together these reports cover:

- the treasury management strategy which shows how the investments and borrowings are to be organised, including treasury indicators;
- an investment strategy stating the parameters on how investments are to be managed;
- the capital plans, borrowing limits and other indicators;
- the minimum revenue provision (MRP) policy showing how residual capital expenditure is charged to revenue over time;
- an annual report looking at actuals over the previous year and providing details of a selection of actual prudential and treasury indicators and performance of treasury operations compared to estimates for the year;
- a mid-year report to indicate progress and update on performance of the Treasury Management function

Scrutiny

The above reports are required to be scrutinised before being recommended to the PCC. This role is undertaken by the Joint Audit Committee.

3 Treasury Management Policy Statement

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

- The management of borrowing, 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.

As a result of the change in accounting standards for 2020/21 under IFRS 9, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. [In November 2018 the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.] We do not expect this will have an impact on the PCC for Surrey's Treasury activities due to simple the nature of daily transactions.

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.

3.5 Policy on borrowing in advance of need

The PCC will not borrow more than or in advance of needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

3.6 Debt rescheduling

As short term borrowing rates may be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in light of the current treasury position and the size of cost of debt repayment (premiums incurred).

Reasons for rescheduling would include:

- Generation of cash savings and/or discounted cash flow savings
- To fulfil the treasury strategy
- To enhance the balance of the portfolio maturity profile and/or the balance of volatility

All rescheduling will be reported to the PCC at the earliest meeting following its action.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur based on current rates and conditions.

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 is the impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU).
- 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 2021/22

- 5.1 The Council's cash balances are expected to remain low during 2021/22. 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 The Council's treasury management advisors Arlingclose is forecasting that the Bank Rate would remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the Bank of England (BoE) and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping the Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

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

<https://mycouncil.surreycc.gov.uk/documents/s75817/Item%205%20-%20Annex%20H%20-%20Treasury%20Management%20Strategy.pdf>

6 Treasury Management Scheme of Delegation

6.1 Police and Crime Commissioner for Surrey.

- Reviewing reports on treasury management policies, practices and activities;
- Approval of annual treasury management strategy statement (TMSS);
- Approval of MRP statement;
- Approval of the annual treasury report;
- Approval of the mid-year treasury management report;
- Approve of any mid-year amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- Approval of the annual budgets; and
- Responsible for the legal contracting body who owns all the assets and liabilities, with the responsibility for the financial administration of their office and the Force, including all borrowing limits.

6.2 Chief Finance Officer

- Securing the treasury management function, including loans and investments
- Approval of division of responsibilities
- Reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment

6.3 Joint Audit Committee responsibility for scrutiny

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body
- Ensure that an effective system of scrutiny is in place in respect of Treasury Management policy, strategy, policies and practices.

7 The treasury management role of the section 151 officer (Chief Finance Officer)

7.1 The s151 (responsible) officer represented by the Chief Finance Officer to the PCC for Surrey responsibilities are:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;

- Submitting budgets and budget variations;
- Reviewing management information reports;
- Reviewing performance of the treasury management function;
- Ensuring adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring adequacy of internal audit, and liaising with external audit;
- Recommending the appointment of external service providers.

7.2 The above list of specific responsibilities of the s151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the most recent changes in both the Treasury Management and Prudential codes, is a major extension of the functions of this role, especially in respect of non-financial investments as follows:

- Ensuring the preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- Ensure that the PCC has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- Providing a list to the PCC and JAC stakeholders of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by the PCC;
- Ensuring that the PCC has adequate expertise, either in house or externally provided, to carry out the above;
- Creation of Treasury Management Practices including risk management and criteria for any material non-treasury investment portfolios.

8 Regulatory Changes

- 7.1 There are no significant changes to regulations on local authority treasury management to note for 2021/22.
- 7.2 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 – 2018 Edition

CIPFA Treasury Management Code – 2018 Edition

Local Government Act 2003

Surrey County Council: Treasury Management Strategy

Contact details:

Sue Eaton

Financial Accountant

E-mail: Susan.Eaton@surrey.pnn.police.uk

Appendix A

Police and Crime Commissioner for Surrey

Treasury Management Practices (TMP)

2021 to 2025

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	£500k
BACS (payment of salaries)	£10m
(1 day credit arrangement)	

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 2021/22 budget at the following rates:

	Employees	Non-pay
2021/22	2%	2% 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, the 7 day LIBID and the Bank of England Base Rate. SCC has embraced the spirit of the CIPFA Code for Treasury Management to invest funds prudently and to 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 minimal impact on the market value of principal sums. The SCC's treasury strategy would also permit the use of:

- Banks (Unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds.
- Banks (Secured): Covered Bonds, reverse purchase agreements and other collateralised arrangements

- Government: Loans bonds and bills issued or guaranteed by national governments, regional or Local Authorities
- Pooled Funds: Shares or units in diversified investment vehicles such as Bond, equity and property funds

Their proposed use would be subject to due diligence and approval of the County's S151 Officer.

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 2020/21 was £20.7k.

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 weighted average quarterly investment rate
- 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

2021/22 – 2024/25

March 2021

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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 Prudential and Treasury Management Codes (2018 edition) require that for 2021/22, all local authorities will produce 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 of investments over timespan, type of investment and rate of return;
- 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, and,
- deliver projects that focus on delivering the long term benefits to policing in Surrey.

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 Police 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 Police is prevented from entering into commercial investment activities.

5. GOVERNANCE OF THE CAPITAL PROGRAMME

5.1 Governance process

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 2018-2021 and will be updated further following the next PCC election due in May 2021.

<https://www.surrey-pcc.gov.uk/plan/>

<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>>

Surrey Police Commitments to our Communities, our Force, and our People set out how we will serve Surrey from 2020-2025, with the ultimate aim of making Surrey Be Safe, Feel Safe.

<https://www.surrey.police.uk/police-forces/surrey-police/areas/au/about-us/priorities-and-direction/our-commitments/>

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, the 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 (MOU): 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 Police 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) of Capital Expenditure 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 Police has benefitted from substantial capital reserves, supported by capital receipts from the sale of operational buildings or police houses.

The Capital Receipts Reserve contains receipts from the sale of assets which can be used to finance future capital expenditure. The Capital Receipts received in-year will be applied to fund capital expenditure in year.

As we move forward through the next 4 years and beyond, there will be a move 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.

The capital financing approach remains to maximise the use of Capital Receipts to support the capital programme after the use of capital grant whilst maximising the overall benefit in underpinning the Revenue budget.

The strategy is focused around the type of asset that needs to be financed, with the aim 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 Police 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

Capital monitoring reports are submitted 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. As the pool of assets available for sale declines the financial support from these receipts will diminish (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 Police does not currently have an Optimism Bias Reserve but may consider this in the future.

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

This accounting standard has been deferred for another year due to the pandemic in 2019/20. 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 22 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 2021/22.

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.
- Other capital schemes, most notably new technology programmes, are being delivered across the SE region in 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 (Executive Director of Commercial and Finance Services) 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

The PCC's Treasury Strategy and investment policy has regard to the following to manage risk:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The PCC's investment priorities will be security first, liquidity second, then yield (return).

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 Police 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 (Executive Director of Commercial and Finance Services) 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 PCC might not have funds available to meet its commitments to make contracted payments on time or 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.

The PCC manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

Whilst the Public Works Loan Board provides access to longer term funds, it also acts as a lender of last resort to authorities (although it will not provide funding to an Authority or PCC whose actions are unlawful). The PCC is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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.

14. COVID-19

The CIPFA Treasury and Capital Management Panel has identified a number of key issues which need to be considered as result of the COVID-19 pandemic.

Cash Flow Management

It is recommended that day-to-day cash flow management is prioritised during and immediately after the COVID-19 period. Forecasted cash flows are likely to be on a downward trend for the medium to long term. Alternatively, the new grant awards may lead

to temporary surpluses. These should be considered against the Surrey Police's normal monitoring of and any breaches should be reviewed and reported. Assumptions will need to be transparent and Surrey Police will need to consider the financial control systems required to gather as much information as possible on key significant items of expenditure and income that will impact on cash flows, such as:

- the timing for likely changes to the major schemes in the capital programmes
- the impact of the pandemic on service provision (e.g. the cash impact of delivering services in different ways)
- new or different levels of grant income
- overtime or special arrangements for key workers
- changes to policy such as the changes to business rates
- consideration of the impact of the pandemic on other receivables such as council tax or housing rents.

Liquidity

The impact of the various cash flow scenarios described above will create greater uncertainty over the amount and timing of cash flows collected by the force. It is likely that Surrey Police will need to keep under review the liquidity of their investment portfolios and make cash available in the shorter term. Surrey Police may also need to consider their ability to be able to convert investments to cash at short notice and even the liquidity of their longer-term investments.

Security

A key part of treasury management is the management of risk and the protection of the principal sums invested. Surrey Police will therefore consider the impact of COVID-19 on the approach to their treasury management activities.

Implications on PWLB Interest Rate Rise

Following the rise in October 2019 of the borrowing rate for local authorities with the Public Works Loan Board (PWLB), the margin on borrowing over corresponding gilts may give rise to private markets offering competitive borrowing options for local authorities to finance capital programmes across the UK.

Surrey Police will have a number of options to finance local authority capital expenditure:

- continuing to finance through PWLB at the new rate
- reducing or delaying elements of the capital programme
- seeking to fund through other sources of finance within the force e.g. revenue or capital receipts (though it is recognised that these sources are increasingly limited for the force)
- seeking alternative funding solutions (which may not be limited to private market offerings).

As with all capital financing decisions it will be important that they are properly evaluated and risk managed using the principles of the Prudential and the Treasury Management Codes.

Borrowing will need to be sustainable, prudent and affordable, with a full understanding of the risks and impact on the authority. This will include:

- a full option appraisal against other alternatives – this will also need to consider options for postponement and not proceeding with the scheme or particular elements of capital expenditure plans
- an impact analysis on the Surrey Police's future finances, ensuring that this is fully understood in both the medium- to long-term and taking into account future changes in the economic environment
- an assessment of accounting consequences before entering into the transactions, including the impact on Surrey Police's general fund
- a full evaluation of the refinancing risks
- for new or 'innovative' transactions – an assessment of whether the authority and its decision makers have appropriate skills and experience to make the relevant assessments
- consideration of the impact that the new financing option will have on its capital strategy.

March 2021