Ref No: 13-2013

THE POLICE & CRIME COMMISSIONER FOR CLEVELAND

DECISION RECORD FORM

REQUEST: For Approval
Title: Treasury Management and Prudential Indicators 2013-17
Executive Summary: To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2013/14. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2013/14. The attached report covers off these requirements while also asking the PCC to approve the Treasury Management Policy
Decision: The PCC is asked to note the contents of the attached report and approve the recommendations.

Implications:

Has consideration been taken of the following:	Yes	No
Financial	☑	☐
Legal	☑	☐
Equality & Diversity	☑	☐
Human Rights	☑	☐
Sustainability	☑	☐
Risk	☑	☐

(If yes please provide further details on the next page)

Decision Required – Supporting Information

Financial Implications: (Must include comments of the PCC's CFO where the decision has financial implications)

See contents of the report.

Legal Implications: (Must include comments of the Monitoring Officer where the decision has legal implication)

Equality and Diversity Implications

Human Rights Implications

Sustainability Implications

Risk Management Implications

OFFICER APPROVAL
Chief Executive
I have been consulted about the decision and confirm that financial, legal, and equalities advice has been taken into account. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

Signature: Date: 4/3/13

Police and Crime Commissioner:

The above request HAS / ~~DOES NOT HAVE~~ my approval.

Signature: B. Coppinger Date: 28/2/13

POLICE AND CRIME COMMISSIONER FOR CLEVELAND

Police & Crime Commissioner for Cleveland
Cleveland Police Headquarters
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Middlesbrough
TS8 9EH

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Police and Crime Commissioner:	Barry Coppinger	Tel: 01642 301653 Fax: 01642 301495
Chief of Staff:	Ed Chicken	Tel: 01642 301653
Chief Constable	Jacqui Cheer	Tel: 01642 301215

Report of the Chief Financial Officer for the Police and Crime Commissioner (PCC) and the Chief Constable, to the PCC for Cleveland
28th February 2013

Status: For Decision

Treasury Management and Prudential Indicators 2013/17

1. Purpose

1.1 This report is one of a set of five that are for consideration by the PCC to set the Long Term Financial Plan:

- Robustness of Estimates & Adequacy of Financial Reserves
- Minimum Revenue Provision Strategy 2013/14
- Prudential Indicators & Treasury Management Strategy 2013/17
- 2013/14 Budget and LTFP 2013/17
- 2013/14 Capital Programme & Outline Capital Plan 2014/17

1.2 These reports are part of the process to establish sustainable annual and long term financial plans and maintain prudent financial management.

1.3 To comply with the CIPFA Prudential Code of Practice, the PCC is required to set a range of Prudential Indicators for the financial year 2013/14.

1.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2013/14.

2. Recommendations

The PCC is asked to:

2.1 Approve the Prudential Indicators, set out in 3.5, 3.6 and 3.7.

2.2 Approve the Annual Investment Strategy set out at Appendix A.

2.3 Approve the Treasury Management Policy in Appendix C.

2.4 Note that future investments will be placed in line with the strategy in Appendix A.

2.5 Approve that an overdraft of up to £5m can be arrange with NatWest Bank and used as a form of temporary borrowing to manage the short-term timing differences between cash payments and receipts.

3. Reasons

3.1 Prudential Indicators
The Prudential Code requires authorities (including the PCC) to self regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.

3.2 The Code imposes on authorities clear governance procedures for setting and revising of Prudential Indicators, and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium term net borrowing will only be for a capital purpose.

3.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code The PCC are required to set a range of Prudential Indicators for the financial year 2013/14.

3.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy.

3.5 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PCC finances. The PCC is requested to approve the following:

3.5.1 *Ratio of Financing Costs to Net Revenue Stream*

This indicator identifies the trend in the cost of capital against the net budgetary requirement.

In 2012/13 the actual cost in this area is expected to be £6,172k; the 2012/13 total includes £3,899k attributable to PFI (£3,199k of interest charges and £700k of MRP).

This is expected to increase to £6,519k during 2013/14 as a result of the levels of borrowing as highlighted in the Capital Plan report also on today's agenda.

It should also be noted that whilst PFI has an impact upon these indicators, grants applicable to PFI are also received ensuring that there is no overall impact to the Net Revenue Budget as a whole.

Revenue funding streams were also reduced during 2010/11, further still in 2011/12, and will continue for the life of this Comprehensive Spending Review into 2014/15. We are therefore expecting during 2013/14 that 5.0% of our funding will be used to service our borrowing.

Financing Costs to Net Revenue Streams	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	2,500	2,805	2,603	2,668
Interest Payable on Borrowing	4,069	4,099	3,863	3,734
Interest Receivable	(50)	(100)	(150)	(150)
Financing Costs	**6,519**	**6,804**	**6,316**	**6,252**
Net Revenue Stream	**129,502**	**126,477**	**124,709**	**124,464**
Ratio %	5.0%	5.4%	5.1%	5.0%

Whilst the current projections are provided for in the Long Term Financial Plan, serious consideration should be given to any proposed increases in borrowing.

3.5.2 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2013/14	2014/15	2015/16	2016/17
	Estimate	Estimate	Estimate	Estimate
	£	£	£	£
Band D Impact	1.33	1.03	(1.74)	(0.22)

The PCC has approved a 1.99% increase in Precept for 2013/14, the level of Council Tax for a Band D property will increase by £3.87 with £1.33 per property attributable to the forecast increase in borrowing costs.

3.6 Prudence

The table below summarises the Capital Programme that is also on today's agenda for approval, plus amendments for PFI expenditure as dictated by International Accounting Standards.

Capital Expenditure	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Capital Expenditure	2,315	3,075	2,786	1,421
PFI Capital Expenditure	492	356	804	955
Total Capital Expenditure	**2,807**	**3,431**	**3,590**	**2,376**
Funded By:				
Gross Borrowing	760	1,364	990	0
PFI Borrowing	0	0	0	0
Other Capital Resources	2,047	2,067	2,600	2,376
%age of Expenditure funded by Borrowing	27.1%	39.8%	27.6%	0.0%

Due to significant Capital Grant reductions whilst needing to maintain some level of investment in our asset base in order to continue to provide a service, some borrowing is required. However, it is worth noting that this percentage has significantly decreased from almost 73% in 2010/11.

3.6.1 The PCC's Borrowing Need (The Capital Financing Requirement)

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

The PCC is asked to approve the following CFR projections:

Capital Financing Requirement	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£000	£000	£000	£000
Opening Capital Financing Requirement	**17,574**	**17,711**	**17,955**	**18,188**
Supported Borrowing	760	872	872	0
MRP on Supported Borrowing	(623)	(629)	(638)	(648)
Closing Capital Financing Requirement	**17,711**	**17,955**	**18,188**	**17,541**
Unsupported borrowing to fund Capital Expenditure	14,267	14,759	14,877	14,877
PFI Borrowing	34,978	34,978	34,978	34,978
Total CFR Base on which MRP is calculated	**66,956**	**67,692**	**68,043**	**67,396**
MRP on Unsupported Borrowing	(1,134)	(2,138)	(3,245)	(4,401)
MRP on PFI	(3,484)	(4,352)	(5,412)	(6,211)
Total CFR Base for borrowing purposes	**62,338**	**61,202**	**59,386**	**56,784**

The Gross Borrowing requirement detailed in the table 3.6 above increases the CFR. The PCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

3.6.2 *Limits to Borrowing Activity*

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well defined limits.

For the first of these the PCC needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Net Borrowing and the Capital Financing Requirement (CFR)	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£000	£000	£000	£000
Borrowing	25,120	22,724	22,374	21,274
PFI Borrowing	28,675	27,700	26,921	25,681
Investments	(2,000)	(2,000)	(2,000)	(2,000)
Net Borrowing	**51,795**	**48,424**	**47,295**	**44,955**
Total CFR Base for borrowing purposes	**62,338**	**61,202**	**59,386**	**56,784**

The projected forecasts detailed in the table above show that there is still some margin between this and the CFR and therefore the PCC will be well within the limits required.

3.6.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The ***Authorised Limit*** which represents the limit beyond which borrowing is prohibited and needs to be set and revised the PCC, borrowing beyond this limit would be ultra vires. The provision for temporary borrowing within this limit has been increased in order to allow for any potential borrowing as a result of forthcoming decisions around the potential relocation of Cleveland Police Headquarters.

- The ***Operational Boundary*** which is based on the probable external debt during the course of the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed. Within this, the Provision for Temporary Borrowing is requested to be increased to £5,000k in order that the PCC may utilise an overdraft facility due to timing issues regarding cash payments and receipts leading to a short-term over commitment of cash at points during the first three months of the year. Based on current information, the cost of this is expected to be £16k during 2013/14; with its requirements being reassessed on an annual basis as part of the budgeting cycle.

The PCC is asked to approve the following limits:

	2013/14	**2014/15**	**2015/16**	**2016/17**
Authorised Limit for External Debt	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	25,120	22,724	22,374	21,274
PFI Borrowing	28,675	27,700	26,921	25,681
Provision for Temporary Borrowing	7,000	7,000	7,000	7,000
	60,795	**57,424**	**56,295**	**53,955**

	2013/14	**2014/15**	**2015/16**	**2016/17**
Operational Boundary for External Debt	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	25,120	22,724	22,374	21,274
PFI Borrowing	28,675	27,700	26,921	25,681
Provision for Temporary Borrowing	5,000	5,000	5,000	5,000
	58,795	**55,424**	**54,295**	**51,955**

3.7 Treasury Management Indicators

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PCC's overall financial position. The PCC is asked to approve the indicators below:

3.7.1 Upper Limits on Borrowing

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100
Upper Limit of Variable Rate Exposures	20	20	20	20

This means 80%-100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 20% will be at variable rates so liable to change at short notice.

The PCC has not entered into any variable rate loans previously. However, the indicator provides some flexibility should the need ever arise and this relates to the request for the PCC to approve the use of an overdraft facility in 2013/14 in order to deal with cashflow timing differences.

3.7.2 *Upper Limits on Investments*

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100
Upper Limit of Variable Rate Exposures	20	20	20	20

This means 80%-100% of our investments will be at rates fixed until the investment matures, while no more than 20% will be at variable rates so liable to change at short notice.

The PCC has not entered into any variable rate investments previously and there is no intention to do so in the future. However, the indicator provides some flexibility should the need ever arise.

3.7.3 *Maturity Structure of Debt*

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PCC is asked to approve.

Maturity Structure of Debt	2013/14		2014/15		2015/16		2016/17	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	75%	0%	60%	0%	65%	0%	60%
Over 10 years	0%	100%	0%	100%	0%	100%	0%	100%

3.7.4 *Upper Limit for Sums Invested for a Period of over 364 days*

Principal Sums Invested > 1yr	**2013/14** Estimate	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate
	£000	£000	£000	£000
Maturity Profile	2,000	2,000	2,000	2,000

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PCC is asked to approve that we do not invest more than £2m for a period of greater than 1 year.

3.8 Annual Investment Strategy
The proposed Annual Investment Strategy for 2013/2014 is attached at Appendix A. This includes the criteria for inclusion on the Counterparty List and also how this is split between Specified and Non-specified Counterparties.

3.9 Returns on Investments
While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list potentially restricts the returns, in the form of interest receivable, which the PCC can make.

3.10 Given the current low level of interest rates, the Bank of England Base rate is currently 0.5% and has been for almost 3 years, the impact will be relatively small. The budget set for interest receivable in 2013/14 is £50k; the average rate seen on investments for the first 10 months of 2012/13 is 0.63% and we are expected to recover £60k in interest income as a result. Therefore, the income budget set for 2013/14 allows for some reduction in investment rates or cash balances from those seen in 2012/13.

3.11 Counterparty Limits
As per the strategy in Appendix A, limits for specified counterparties are:
- The maximum investment with any counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

3.12 For non-specified counterparties these are:
- The maximum investment with any counterparty is £5 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £7 million.

4. Implications

4.1 Finance

There are no financial implications arising from this report that is not included above.

4.2 Diversity & Equal Opportunities
There are no issues arising from this report to bring to the PCC's attention.

4.3 Human Rights Act
There are no Human Rights Act implications arising from this report.

4.4 Sustainability
This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.5 Risk
The investment strategy put forward today seeks to minimise the risks of the PCC while ensuring that the cash balances of the PCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

5. Conclusions

5.1 To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2013/14.

5.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

5.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

5.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter
CFO for the PCC

Jacqui Cheer
Chief Constable

APPENDIX A

PCC for Cleveland Annual Investment Strategy

The PCC for Cleveland's strategy has regard to the guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services 2011 Edition.

The main investment priorities are:

- The security of capital; and
- The liquidity of its investments.

The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered along side generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

Limits and Definition of Specified Investments

(a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
(b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
(c) The investment is made with the PCC's own bank, currently NatWest.
(d) The investment is made with a Nationalised Bank or Building Society
(e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

Limits and Definition of Non-Specified Investments

The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £5 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £7 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

Criteria for Inclusion on Investment Counterparty List

- UK Clearing Banks and their wholly owned subsidiaries. Nationalised Banks and Nationalised Building Societies.
- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.

Counterparty List

<u>Specified Investments:</u>
UK Government
Local Authorities
Other PCCs
AAA – rated Money Market Funds
NatWest Bank (The PCC's own bank)
Banks Part Owned by the UK Government

1. Lloyds Banking Group
2. Royal Bank of Scotland

<u>Unspecified Investments</u>:

- UK Clearing Banks (Not included elsewhere on the Investment List)
  1. Santander UK
  2. Bank of England
  3. Barclays
  4. Clydesdale
  5. The Co-operative Bank
  6. HSBC
  7. Nationwide
  8. Bank of Scotland