POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

Key Decisions

Title and Reference
Treasury Management Annual Report 2012/13 (PCC/52/2013)

Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) requires the Commissioner to receive a Treasury Management Annual Report on borrowing and investment activity by the 30th September each year. This report meets this requirement and informs the Commissioner of Treasury Management activity during 2012/13.

Taking into account the annual reporting requirements stipulated in the Code, the annual treasury report attached at Appendix A covers:

- A summary of the investment and borrowing strategy for 2012/13;
- The approach to risk;
- Any opportunities for debt restructuring and or / early repayment of borrowing; and
- Treasury Management performance for the year 2012/13.

To support the decision making process, the Annual Report was presented to the Commissioner's Joint Independent Audit Committee on 16th September 2013, with a recommendation for the Committee to note the Treasury Management performance for 2012/13 and approve for presentation to the Police and Crime Commissioner.

The report was discussed by the Committee and questions put to the officers, following which the Committee approved it for presentation to the Commissioner with no changes.

Recommendation / Findings:

The Commissioner is requested to note the comments from the Joint Independent Audit Committee and the information set out in the Treasury Management Annual report.

Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature **Date 19.09.13**

Appendix A

Information and advice provided to the Police and Crime Commissioner for Northumbria

Treasury Management Annual Report 2012/13

1. Purpose of the Report

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 (the Code) requires the Police and Crime Commissioner to receive a Treasury Management Annual Report on borrowing and investment activity. This report meets this requirement and informs the Commissioner of the performance of Treasury Management activity during 2012/13.

2. Background

2.1 Gateshead Council provides advice to the Police and Crime Commissioner for Northumbria and undertakes investment and borrowing on behalf of the Commissioner under powers delegated to the Treasurer and regulated through a Service Agreement. The necessary powers for this exist within Section 113 of the Local Government Act. When undertaking treasury activities on behalf of the Commissioner, Gateshead Council operates an integrated treasury strategy and has adopted the Revised Code of Practice for Treasury Management in the Public Services.

2.3 Under the terms of the SSA Gateshead Council provide a service which fully complies with the requirements of the Code, the Prudential Code for Capital and the Department for Communities and Local Government (DCLG) guidance on investments. These requirements include the:

- Creation and maintenance of an annual Treasury Management Policy Statement setting out Treasury Management policies and objectives;
- Provision of a mid-year report and an annual review; and
- Provision of weekly and monthly reports to demonstrate that sound monitoring and control arrangements are in place to ensure treasury management policies and practices are implemented.

2.4 Taking into account the annual reporting requirements stipulated in the Code, the annual treasury report covers:

- A summary of the investment and borrowing strategy for 2012/13;
- The approach to risk;
- Any opportunities for debt restructuring and/or early repayment of borrowing; and
- Treasury Management performance for the year 2012/13.

3. Conclusion

3.1 Overall Treasury Management performance against budget for 2012/13 generated savings of £0.686m.

4. Financial Considerations

4.1 Financial considerations are considered throughout this report.

5. Legal Considerations

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

6. Equality Considerations

6.1 There are no equality implications arising from the contents of this report

7. Risk Management Considerations

7.1 Associated risks have been considered and adequate risk control measures implemented. All Treasury Management activity throughout the year was carried out in accordance with the approved Treasury Management Policy and Strategy, which has the underlying aim of minimising risk to ensure that the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

8. Background and Supporting Papers

8.1 Appendix B – Treasury Management Annual Report 2012/13

Treasury Management Annual Report 2012/13

The Strategy for 2012/13

1. The 2012/13 Treasury Management Strategy was approved by Northumbria Police Authority on 14th March 2012 and adopted as part of the statutory transfer to the Commissioner on 22nd November 2012.

2. The formulation of the 2012/13 Treasury Management strategy involved determining the appropriate borrowing and investment decisions with the prime objective of safeguarding assets and secondary objectives of managing liquidity, obtaining a reasonable rate of return on investments and minimising the costs of borrowing.

3. The Treasury Strategy fully complied with the requirements of CIPFA's Treasury Management Code of Practice and covered the following:
    - prospects for interest rates;
    - treasury limits including prudential indicators;
    - the borrowing strategy; and
    - the investment strategy.

Investment Strategy

4. Investments are managed in-house using counterparties listed in an approved lending list consistent with the agreed Treasury Management Strategy. Investments are placed over a range of periods and are dependent on the assessed security of the counterparty, the liquidity requirements of the cash flow, actual interest rates and expectations of movements in interest rates.

5. At the time of preparing the Treasury Management Strategy, the view was that the Bank Rate would remain at 0.50% until at least March 2014 and therefore the rate of return on investments would remain low but consistent throughout the year.

Borrowing Strategy

6. The borrowing strategy for 2012/13 was:
    - When 25 year Public Works Loans Board (PWLB) rates fell back to or below the central forecast of 4.10% borrowing should be taken, with preference given to terms of less than 20 years to enhance the diversity of the borrowing portfolio; and
    - Consideration was to be given to fixed term market loans which were at least 20 basis points below the PWLB target rate.

7. It was considered that there would be minimal opportunities to restructure debt however the potential for repaying debt was to be monitored throughout the year.

Treasury Management Approach to Risk

8. The primary objective is to ensure the security of funds and minimise risks, including counterparty and interest rate risks. The internal audit report

presented to the Joint Independent Audit Committee on 27th March 2013 concluded that treasury management control systems and procedures are operating well. A further internal audit carried out since this date has reiterated this and the report will be presented to the Joint Independent Audit Committee in November 2013.

Outturn 2012/13 – Performance Measurement

9. Prudential indicators are set annually to ensure that borrowing is prudent, sustainable and affordable. Performance is monitored against these indicators throughout the year and reported in the quarterly capital monitoring reports. The outturn against the prudential indicators was reported to the Commissioner on the 27th June 2013 as part of the key decisions around the capital outturn report 2012/13. For completeness a copy of the prudential indicators is attached as Appendix 2.

Market Interest Rates

10. Performance must be considered in conjunction with actual rate movements over the financial year which were as follows:

    Shorter-term interest rates – As expected the Bank Base Rate remained at 0.50% throughout 2012/13.

    Longer-term interest rates – It was anticipated that the cost of borrowing would increase during the year as long term borrowing rates increased. However, the continuing uncertainties in the UK and global economies and the increased level of quantitative easing resulted in a reduction in interest rates.

Investment Performance

11. The major issue for treasury management in 2012/13 has continued to be ensuring the security of investments whilst generating a reasonable rate of return. Due to the difference between the cost of borrowing and investment interest, cash balances have been used to temporarily fund the capital programme. This has resulted in a slight under achievement on investment interest offset by a more significant saving on the cost of borrowing.

12. Although investment activity during the year has been restricted due to the limitation on counterparties, continued use has been made of a range of investment instruments in order to minimise risk, increase flexibility, maximise liquidity and obtain reasonable interest rates. An increased use of notice reserve accounts, with high rated and UK Government supported banks has maintained the security of funds and enhanced the rate of return.

13. A summary of the year's activity is shown at Appendix 1. The total interest earned in the year was £0.353m (2011/12 £0.715m). The investment interest earned was a decrease of £0.006m against the original budget of £0.359m.

14. The overall return on investments was of 0.96% which exceeds the benchmark rate (the 7-day London Interbank Bid Rate (LIBID)) of 0.39%. The

LIBID is used as a benchmark as it is linked to the base rate and provides a publically available national comparator.

Heritable Bank

15. The administrator for Heritable Bank, Ernst and Young, has carried out a great deal of work with support from creditors and is currently running off the business successfully. In the 2010/11 Statement of Accounts the total investments with Heritable of £5.2m were impaired to reduce the balance held on the balance sheet to the amount it was expected would be recoverable, which was estimated at the time to be 90p in the £.

16. At the end of 2012/13, total dividends of £4.096m (77.28p in the £) had been received. The next dividend was due in August 2013 with the expectation that totally repayments would at least equal the 90p in the £ impaired amount.

17. Since the end of 2012/13, the next dividend has been received, at 16.7p in the £ which was significantly higher than previous dividends and has increased total dividends received to date to 94.02p in the £, exceeding the estimated return. As the original investment had been impaired to reflect the expected return all additional income above 90p in the £ is revenue income. The additional 4.02p in the £ equates to £267,356 revenue income.

18. The next update from the administrators is due in September and will provide guidance as to the potential for future dividends.

Borrowing Performance

19. The total borrowing at 31st March 2013 was £75.133m, which was within the operational borrowing limit of £115m. This is a net increase of £9.997m from the opening figure of £65.136m, represented by £10m new borrowing and a repayment of £0.003m. The new borrowing was taken as follows:

Date	Amount	Interest Rate	Source
14/05/2012	£5,000,000	2.44%	PWLB
13/03/2013	£5,000,000	1.03%	PWLB

20. At 31st March 2013, £70.133m of the total borrowing was from the PWLB with the remaining £5m taken as a market loan.

21. The overall revenue cost of borrowing in 2012/13 was £3.286m. This was £0.692m less than the budget. The saving was mainly due to the decision to delay borrowing by temporally funding the capital programme from cash balances and the reduction in long term interest rates.

Debt Restructuring & Repayment

22. Due to the differential between current and historic interest rates it was anticipated that there would be little scope to restructure PWLB debt. This situation was monitored throughout the year and the cost of early repayment outweighed any savings and therefore there was no early redemption or restructuring of debt.

Summary of Treasury Management performance for the year 2012/13

23. Investment income was £0.006m less than the budget. The slight reduction in investment interest was due to cash reserves being used to support the capital programme. However, the impact of this approach was offset by the increased use of notice accounts and instant access Money Market Funds which pay higher rates than fixed term deposits without reducing the security of funds.

24. Borrowing costs were £0.692m less than the budget, mainly due to a reduction in the borrowing taken compared to the estimate.

25. Overall Treasury Management performance against budget for 2012/13 generated savings of £0.686m and is summarised in the following table:

		2012/13	
	Budget £m	**Actual £m**	**Saving £m**
Cost of Borrowing	3.978	3.286	(0.692)
Investment Income	(0.359)	(0.353)	0.006
Net Position	**3.619**	**2.933**	**(0.686)**

Investment Activity

Investments maturing during the year	2011/12	2012/13
Number of investments made in 2009/10 maturing in 2011/12	2	n/a
Number of investments made in 2010/11 maturing in 2011/12	48	n/a
Number of investments made in 2011/12 maturing in 2011/12	606	n/a
Number of investments made in 2011/12 maturing in 2012/13	n/a	12
Number of investments made in 2012/13 maturing in 2012/13	n/a	803
Total number of investments maturing in year	**656**	**815**
Number of investments made in 2012/13 maturing in 2013/14	n/a	7

Average duration of investments	2011/12	2012/13
Average duration of investments (including overnight)	11 days	6 days
Average duration of investments (excluding overnight)	80 days	62 days

Summary of non-specified investments	2011/12	2012/13
Non-specified investments:		
Rated non-high		
Approved limit	55%	55%
Maximum level invested	5%	23%
Not Rated		
Approved limit	15%	15%
Maximum level invested*	3%	8%
Investments over 364 days		
Approved limit	£30m	£30m
Maximum level invested	£25m	£0m

*Relates to local authority investments greater than 364 days and the impaired investment with Heritable Bank.

Prudential Indicators 2012/13

Authorised Limit for External Debt		
	2012/13 £000 Reported Indicator	**2012/13 £000 Outturn**
Borrowing	115,000	75,133
Other Long Term Liabilities	0	0
Total	**115,000**	**75,133**
Maximum YTD £75.133m		

Operational Boundary for External Debt		
	2012/13 £000 Reported Indicator	**2012/13 £000 Outturn**
Borrowing	115,000	75,133
Other Long Term Liabilities	0	0
Total	**115,000**	**75,133**
Maximum YTD £75.133m		

Limit on Fixed and Variable Interest Rates Exposures		
Range	**2012/13 £000 Reported Indicator**	**2012/13 £000 Outturn**
Fixed Rate	66,996 -63,128	59,386 *max 66,639* *min 16,262*
Variable	15,264 -30,000	609 *max 609* *min -18,886*
All within agreed limits (Max and Min YTD)		

Upper / Lower Limits for Maturity Structure of Fixed Rate Borrowing				
	2012/13 Reported Indicator		**2012/13 Outturn**	
	Upper Limit	**Lower Limit**	**Actual Percentage**	**Maximum YTD**
Under 12 months	20%	0%	2.67%	2.86%
12 months to 24 months	35%	0%	15.75%	15.75%
24 months to 5 years	80%	0%	25.84%	34.81%
5 years to 10 years	80%	0%	27.84%	36.35%
10 years and above	90%	0%	27.91%	39.87%
All within agreed limits				

Upper Limit on amounts invested beyond 364 days			
	2012/13 £000 Reported Indicator	**2012/13 £000 Outturn**	**2012/13 £000 Reported Indicator**
Investments	**30,000**	**0**	**0**