

**THE POLICE & CRIME COMMISSIONER
FOR BEDFORDSHIRE**

TREASURY STRATEGY STATEMENT 2014/15

THE POLICE & CRIME COMMISSIONER FOR BEDFORDSHIRE
TREASURY STRATEGY STATEMENT 2014/2015

CONTENTS

| | Page |
|---|-------------|
| 1 Introduction | 1 |
| 2 Treasury Limits for 2013/14 to 2015/16 | 1 |
| 3 Prudential Indicators for 2013/14 to 2015/16 | 2 |
| 4 Current Portfolio Position | 4 |
| 5 Prospects for Interest Rates | 4 |
| 6 Borrowing Strategy | 5 |
| 7 Debt Rescheduling | 6 |
| 8 Annual Investment Strategy | 6 |
| 9 Investment Strategy – External Managers | 8 |
| 10 Banking Arrangements | 8 |
| 11 Conclusion | 8 |
| Appendix A - Prudential Indicators | |
| Appendix B - Approved Lending List | |

1. Introduction

- 1.1 The Local Government Act 2003 requires the Commissioner to “have regard to” the Prudential Code and to set Prudential Indicators for the next three years to ensure the Commissioner’s capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act therefore requires the Commissioner to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 8); this sets out the Commissioner’s policies for managing investments and for giving priority to the security and liquidity of those investments.
- 1.3 The Commissioner is responsible for any investment and borrowing decisions which are made within the organisation, therefore the Commissioner needs to ensure risk management and control lies within the organisation and that relevant training is provided to staff members with Treasury Management responsibilities. Advice is also taken from its external consultants (Capita) additionally regular information is received from banks, views sought from other Local Authorities and meetings held with financial institutions, this ensures a rounded view of the market is gained prior to any investment or borrowing decisions.
- 1.4 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon officers’ views on interest rates, supplemented with leading market forecasts.
- 1.5 The strategy covers:
- treasury limits in force which will limit treasury risk and the borrowing / investment activities of the Commissioner;
 - prudential indicators;
 - the current treasury position;
 - prospects for interest rates;
 - the borrowing strategy;
 - debt rescheduling;
 - the investment strategy.
- 1.6 It is also a statutory requirement for the Commissioner to produce a balanced budget. In particular a Commissioner is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Any increases in capital expenditure must be limited to a level whereby increases in charges to revenue from interest charges and any increases in running costs from capital projects are limited to a level which is affordable for the Commissioner.

2. Treasury Limits for 2013/14 to 2016/17

- 2.1 It is a statutory duty under section 3 of the Local Government Act 2003 and supporting regulations, for the Commissioner to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”.

The Commissioner must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially is a requirement to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is acceptable.

- 2.2 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability – such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.
- 2.3 The Commissioner must also have regard to the exposure to interest rate and liquidity risk. Limits are placed on the levels of both fixed and variable interest rate borrowing and on the maturity profile of new borrowing.
- 2.4 The regulations allow the Commissioner to make investments with a maturity in excess of 364 days. However limits must be placed upon the amount that may be invested in this way.

3 Prudential Indicators for 2014/15 – 2016/17

- 3.1 The prudential indicators, attached at Appendix A, are relevant for the purposes of setting an integrated treasury management strategy. The financial data that sits behind them are based on the capital and medium term plan reports featured elsewhere in the body of this report. These indicators will be reviewed again and updated at the end of the financial year to reflect adjustments made to the capital programme and borrowing decisions. The following paragraphs provide a brief explanation.

Affordability Indicators

- 3.2 The estimates of financing costs included within the indicator for financing costs as a percentage of net revenue stream include both proposals from the revenue budget and capital programme, included elsewhere in the body of this report. Despite the fact that Bedfordshire Police currently invests more money than it borrows the low interest rates for investments mean the cost of borrowing is higher than investment income giving a positive percentage. Over the next three years this percentage is likely to increase as the force makes additional borrowing decisions.
- 3.3 A key indicator for measuring affordability is the the ‘incremental impact on Band D Council Tax’. This indicator highlights how affordable the decisions being made on the capital programme are in terms of their impact on the revenue budget. Over the next three years the effect of borrowing to fund the capital programme causes the indicator to rise. These costs will always be considered when reviewing the medium term plan.

Capital Expenditure Indicators

- 3.4 The capital financing requirement (CFR) measures the Commissioner’s underlying need to borrow for a capital purpose. In accordance with best practice, the Police &

Crime Commissioner for Bedfordshire does not associate borrowing with a particular capital scheme. This indicator is expected to increase in 2014/15 and beyond as further borrowing takes place as per the capital program.

External Debt Indicators

- 3.5 The indicator for the authorised limit for external debt is the maximum the Commissioner can borrow in each financial year. They are prudent estimates and include sufficient headroom to allow for anticipated borrowing to finance capital expenditure for all three years to be taken in the first year (this option might be considered in a climate of rising interest rates) and for the greatest anticipated level of short term borrowing to cover temporary cash shortages. These limits are consistent with the funding in the capital programme.
- 3.6 The operating boundary is based on the same estimates as the authorised limit but does not include the additional headroom of the authorised limit. The figures shown equate to the boundaries that we impose ourselves and expect to stay within during our day to day treasury management operations and therefore reflects the most likely maximum external debt for the current and projected periods.
- 3.7 Borrowing is required in order to fund the latest draft capital programme featured elsewhere in the body of the main report, therefore these self imposed limits have increased accordingly.
- 3.8 The Board should note that the authorised limit determined for 2014/15 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003, any breach of this limit would be deemed ultra vires (beyond the power of) the Commissioner.

Treasury Management Indicators

- 3.9 Whereas the borrowing limits are concerned only with debt, the limits on both the fixed and variable interest rate exposure consider the net position, i.e. borrowing less investments. The Police & Crime Commissioner for Bedfordshire currently has investments in excess of debt, although the gap between these will close during the current capital programme and the expectation is that the level of debt will be in excess of investments. It is assumed that borrowing to finance capital expenditure will be long term and at fixed interest rates while short term borrowing and investment will, by definition, be at variable rates. The upper limits for both fixed and variable interest rate exposure have been shown as absolute amounts as it is felt that these amounts are easier to understand and monitor during the year.
- 3.10 The indicators for interest rate exposure shown in Appendix A indicate that at any time during 2014/15 fixed rate borrowing will not exceed £20.7M and variable rate exposure will not drop below £12.1M (the minimum expected investment balance).
- 3.11 Under current regulations, the Commissioner may make investments for periods in excess of 364 days subject to pre-determined limits. Although there are currently no plans to place long term investments, the setting of this limit gives the

Commissioner's Chief Finance Officer an option to consider such investments should advantageous opportunities arise.

- 3.12 The maturity structure of new fixed rate borrowing indicator was introduced to ensure that the Commissioner considers future liquidity and maturity risk when formulating its borrowing strategy. The Commissioner will seek to avoid having excessive debt maturing in any one year, although the limits shown are widely set to allow the flexibility to take advantage of the yield curve.
- 3.13 In consideration of prudence and sustainability the Chief Finance Officer has ensured and will continue to ensure that the medium to long-term borrowing will be for capital purposes only. Any net external borrowing does not, except on the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4 Current Portfolio Position

- 4.1 The Commissioner borrows from the Public Works Loans Board (PWLB) to finance the capital programme. The PWLB provides funds at interest rates that are usually more favourable than from other available sources. The Commissioner invests surplus cash, and uses instant access accounts to fund temporary shortfalls.
- 4.2 The Commissioner's treasury portfolio position as at 31st December 2013 comprised:

| | | Principal £'000 | Ave. Rate % |
|-------------------------|------|----------------------------|------------------------|
| Fixed Rate Funding | PWLB | 7,720 | 4.20 |
| Total Debt | | 7,720 | 4.20 |
| Fixed Term Investments | | 8,000 | 0.46 |
| Instant Access Accounts | | 8,500 | 1.02 |
| Total Invested | | 16,500 | 0.75 |

- 4.3 The maturity dates of the fixed rate borrowing range from 9 to 23 years as at 31st December 2013 and all fixed term investments mature within 90 days.

5 Prospects for Interest Rates

- 5.1 Short Term Rates

As at 13th January 2014 the base rate stands at 0.50%. Capita Asset Services (formally Sector Treasury Services) has been appointed as treasury adviser to the Commissioner and their latest forecast suggests that this rate will remain until September 2016 and then increase by 0.25%. Investment returns are therefore likely to remain low during 2014/15 and beyond.

5.2 Long Term Rates

PWLB interest rates have risen significantly during 2013 and are on a rising trend. The 25 year interest rate of 4.5% is anticipated to rise by 0.1% each quarter until June 2016, although these rates are based on UK gilt yields which are difficult to predict especially due to the Eurozone sovereign debt difficulties which have not gone away.

6 Borrowing Strategy

6.1 The main objectives of the borrowing strategy for 2014/2015 are:

- to minimise the revenue cost of new debt;
- to effectively manage the Commissioner's debt maturity profile;
- to effect funding at least cost commensurate with risk; and
- to monitor interest rate movements and borrow accordingly (i.e. to borrow short term and/or at variable rates when rates are "high", long term and at fixed rates when rates are "low").

6.2 Borrowing is usually undertaken each year to finance the capital programme. The financing requirement for 2014/2015 capital expenditure is estimated to be £9.2M on the basis that borrowing of £1M takes place in 2013/14. The Commissioner is currently maintaining a marginally under-borrowed position, meaning that the capital borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the reserves, balances and cash flow has been used as a temporary measure. This is expected to move to an over borrowed position should further borrowing being undertaken.

6.3 Borrowing in advance of need will only be undertaken where there is a clear business case for doing so and to fund the current capital programme or to finance future debt maturities.

6.4 Any borrowing to finance the capital programme is expected to be undertaken through the PWLB, the agency through which Central Government makes funds available to local authorities at what are usually favourable rates of interest. However, if interest rates available from the money market are lower than those of the PWLB, borrowing from the money markets will be considered. Any borrowing proposals are agreed with the Commissioner's Chief Finance Officer before being actioned. Borrowing may be reduced should the Police & Crime Commissioner accumulate capital receipts as a result of rationalising the estate. This will be dependant upon review of the Estates Strategy.

6.5 Long term interest rates are monitored during the year and compared with industry forecasts, thus ensuring that if any borrowing is required it is done so at the most favourable rates.

6.6 No temporary debt should be acquired during 2014/2015 as the Commissioner has instant access accounts that can be used to balance cash flow requirements.

7 Debt Rescheduling

7.1 The current structure of the Commissioner's debt portfolio gives little opportunity for beneficial debt rescheduling although debt rescheduling could be undertaken if the following criteria are met:

- enhancement of the portfolio balance
- generation of cash savings and / or discounted cash flow savings
- rescheduling is consistent with the treasury strategy
- approval is given by the Commissioner's Chief Finance Officer and reported to the executive board at the earliest meeting following its action.

8 Annual Investment Strategy

8.1 The Commissioner has regard to the CLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services Code of Practice. The Commissioner's investment priorities are;-

- Firstly the security of capital, then
- the liquidity of it's investments, then
- return on investment

8.2 The Commissioner will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Commissioner will not engage in such activity.

8.3 Investment instruments identified for use in the financial year are listed below under the "Specified" and "Non-Specified" investment categories.

8.4 Specified Investments

These are sterling investments that do not exceed 364 days and are with:

- an organisation that has a high credit rating;
- other local authorities or;
- central government

8.5 Strategy for Specified Investments

The Police Commissioner expects to have a net surplus of funds throughout 2014/15 and will invest funds with those organisations included on its approved lending list (attached as Appendix B).

8.6 The Commissioner's approved lending list includes UK Banks and Building Societies and Foreign Banks with a short term rating of F1 or F1+ and a long term rating of A or higher as they are deemed to have a high credit rating.

- 8.7 Cash held in instant access accounts will only be held with banks who have a short term rating of F1 or higher, up to a maximum of £8M per banking group, these institutions are currently all listed on the approved lending list.
- 8.8 The creditworthiness service provided by Capital Asset Services is used to formulate the lending list for fixed term deposits. Officers recognise that ratings alone should not be the sole factor in determining the quality of an institution, nor should sole reliance be placed on the use of this external credit service, therefore in addition officers will also use market data and information on the level of government support for banks and the credit ratings of the supporting government to make investment decisions.
- 8.9 The modelling approach used by Capita combines market information in order to colour code the creditworthiness of counterparties, these colour codes are then used to determine the duration of investments and the following categories are applied to generate the lending list at Appendix B.

| Colour | Investment Limit | Time Limit |
|---------------|-------------------------|-------------------|
| Purple | £8M | 2 yrs |
| Orange | £8M | 1 yr |
| Blue | £8M | 1 yr |
| Red | £6M | 6 mths |
| Green | £6M | 100 days |

In addition, investments of up to £6M can be made with other local authorities or central government for up to one year.

- 8.10 Weekly creditworthiness updates are provided by Capita with changes to ratings notified as they occur. If a downgrade results in the counterparty no longer meeting the minimum investment criteria its further use for new investments will be withdrawn immediately.
- 8.11 The above criteria will be applied to approved counterparties from countries with a minimum sovereign rating of AAA plus UK banks and building societies (UK sovereign rating AA+).

8.12 Non-Specified Investments

These are any other investments that do not meet the criteria in 8.4 above.

- 8.13 The Police Commissioner has no investments other than the short term investment of surplus cash through the money market. Under current regulations investments that exceed 364 days are classified as non-specific investments because of the greater degree of risk they carry. In order to utilise the freedom to make longer term investments and thus increase the flexibility of the treasury strategy statement to respond to changing circumstances, this report gives the Commissioner the ability to invest surplus cash for periods exceeding 364 days, subject to the limitations set out below.

8.14 The Police Commissioner may make non-specified investments that meet the following criteria:

- are with one of the organisations with whom the Commissioner can make specified investments;
- do not have a maturity date exceeding 2 years from the date the investment is made;
- the total of all such investments do not exceed £6M.

8.15 Non-specified investments meeting the above criteria will only be made where it can be clearly demonstrated that the financial advantage outweighs the associated interest and liquidity risks and with the prior approval of the Commissioner's Chief Finance Officer.

8.16 No other non-specified investments will be made.

9 Investment Strategy – External Managers

9.1 To date, the Police Commissioner has consistently had surplus funds available for investment. These funds have been managed in-house and invested through the money market or maintained in instant access accounts when this option offers better returns or required liquidity.

9.2 The level of available funds and their duration will be kept under review by the Director of Business Support (Finance & Resources) and, if it is deemed appropriate, the use of external cash managers will be considered.

9.3 External cash managers will only be used if clear financial advantage can be demonstrated.

9.4 Any appointment of external cash managers will be subject to an open tendering exercise.

10 Banking Arrangements

10.1 The Commissioner's objective is to minimise the charge for the provision of its banking requirements by using, wherever possible, automated transmission systems for making payments and the receipt of income and by reducing the volume of bulk handling by the bank, such as cash.

10.2 The Commissioner's day to day banking services are provided by NatWest Bank, with the charges and level of service provided being reviewed annually.

11 Conclusion

11.1 The preceding sections set out the Commissioner's strategies for treasury management and for investment. These policies will be kept under constant review, recognising the need for flexibility if circumstances change. Regular reporting will ensure staff compliance with the agreed strategies and enable any necessary

changes, due to altered circumstances, to be swiftly notified to the Commissioner for approval.

11.2 The principal objective will be to achieve the optimum return from investments and to reduce the cost of borrowing, commensurate with the assessment and minimisation of risk.

11.3 Further information can be obtained from:

Director of Business Support (Finance & Resources)
Bedfordshire Police
Force HQ
Woburn Road
Kempston MK43 9AX

Appendix A

Prudential Indicators

| Prudential Indicator | 2013/14 Probable Outturn | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|---|--------------------------------|---------------------|---------------------|---------------------|
| Affordability Indicators | | | | |
| Ratio of financing costs to net revenue stream | 0.53% | 0.65% | 0.77% | 0.90% |
| Estimated incremental impact of capital investment decisions on Band D Council Tax | £2.02 | £2.65 | £3.27 | £3.90 |
| Capital Expenditure Indicators | | | | |
| Capital Financing Requirement | £8.1M | £9.2M | £9.8M | £12.9M |
| External Debt Indicators | | | | |
| Authorised Limit for External Debt | | | | |
| Borrowing | £14.7M | £20.7M | £21.7M | £22.7M |
| Other long term liabilities | - | - | - | - |
| Total | £14.7M | £20.7M | £21.7M | £12.7M |
| Operational Boundary for External Debt | | | | |
| Borrowing | £8.7M | £10.2M | £11.2M | £14.7M |
| Other long term liabilities | - | - | - | - |
| Total | £8.7M | £10.2M | £11.2M | £14.7M |
| Treasury Management Indicators | | | | |
| Upper limits on fixed interest rates | | | | |
| Debt | £8.7M | £10.2M | £11.2M | £14.7M |
| Investments | -£12.0M | -£12.1M | -£9.3M | -£8.2M |
| Upper limit on variable interest rates | | | | |
| Debt | - | - | - | - |
| Investments | -£12.0M | -£12.1M | -£9.3M | -£8.2M |
| Upper limit for total principal sums invested for over 364 days (per maturity date) | £6.0M | £6.0M | £6.0M | £6.0M |
| Maturity structure of new fixed rate borrowing during 2014/15 | Upper Limit | | Lower Limit | |
| Under 12 months | 0% | | 0% | |
| 12 months and within 24 months | 100% | | 100% | |
| 24 months and within 5 years | 100% | | 100% | |
| 5 years and within 10 years | 100% | | 100% | |
| 10 years and above | 100% | | 100% | |

THE POLICE & CRIME COMMISSIONER FOR BEDFORDSHIRE**LENDING LIST - Fixed Term Deposits Only**

| Organisation | Country of Incorporation | Sovereign | Capita Colour Code | Current Financial Limit | Duration Limit |
|---|--------------------------|-----------|--------------------|-------------------------|----------------|
| Other Local Authorities, Police and Fire Authorities | | | | £6M | 12 mths |
| Central Government - UK Debt Management Office Deposit Facility | | | | £6M | 12 mths |
| Part-Nationalised Financial Institutions | | | | | |
| Bank of Scotland plc (part of Lloyds Group) | AA+ | UK | Blue | £8M | 12 mths |
| Lloyds Bank plc | AA+ | UK | Blue | £8M | 12 mths |
| National Westminster Bank plc (part of RBS Group) | AA+ | UK | Blue | £8M | 12 mths |
| The Royal Bank of Scotland plc | AA+ | UK | Blue | £8M | 12 mths |
| Financial Institution | | | | | |
| Barclays Bank plc | UK | AA+ | Green | £6M | 100 days |
| Deutsche Bank AG | Germany | AAA | Green | £6M | 100 days |
| DZ Bank AG | Germany | AAA | Green | £6M | 100 days |
| Landesbank Berlin AG | Germany | AAA | Green | £6M | 100 days |
| Landesbank Hessen-Thuringen Girozentrale | Germany | AAA | Green | £6M | 100 days |
| Credit Suisse AG | Germany | AAA | Green | £6M | 100 days |
| UBS AG | Germany | AAA | Green | £6M | 100 days |
| Santander UK plc | UK | AA+ | Green | £6M | 100 days |
| Nationwide Building Society | UK | AA+ | Green | £6M | 100 days |
| Goldman Sachs International Bank | UK | AA+ | Green | £6M | 100 days |
| Australia and New Zealand Banking Group Ltd | Australia | AAA | Red | £6M | 6 mths |
| Commonwealth Bank of Australia | Australia | AAA | Red | £6M | 6 mths |
| National Australia Bank Ltd | Australia | AAA | Red | £6M | 6 mths |
| Westpac Banking Corporation | Australia | AAA | Red | £6M | 6 mths |
| National Bank of Canada | Australia | AAA | Red | £6M | 6 mths |
| DnB Bank | Norway | AAA | Red | £6M | 6 mths |
| Skandinaviska Enskilda Banken AB | Sweden | AAA | Red | £6M | 6 mths |
| Swedbank AB | Sweden | AAA | Red | £6M | 6 mths |
| Credit Suisse International | Switzerland | AAA | Red | £6M | 6 mths |
| Standard Chartered Bank | UK | AA+ | Red | £6M | 6 mths |
| UBS Ltd | Switzerland | AAA | Red | £6M | 6 mths |
| Bank of Montreal | Canada | AAA | Orange | £8M | 12 mths |
| Bank of Nova Scotia | Canada | AAA | Orange | £8M | 12 mths |
| Canadian Imperial Bank of Commerce | Canada | AAA | Orange | £8M | 12 mths |
| Royal Bank of Canada | Canada | AAA | Orange | £8M | 12 mths |
| Nordea Bank Finland | Finland | AAA | Orange | £8M | 12 mths |
| Landwirtschaftliche Rentenbank | Germany | AAA | Orange | £8M | 12 mths |
| Nordea Bank AB | Sweden | AAA | Orange | £8M | 12 mths |
| Svenska Handelsbanken AB | Sweden | AAA | Orange | £8M | 12 mths |
| HSBC Bank plc | UK | AA+ | Orange | £8M | 12 mths |
| Toronto Dominion Bank | Canada | AAA | Purple | £8M | 24 mths |
| DBS Bank Ltd | Singapore | AAA | Purple | £8M | 24 mths |
| Oversea Chinese Banking Corporation Ltd | Singapore | AAA | Purple | £8M | 24 mths |
| United Overseas Bank Ltd | Singapore | AAA | Purple | £8M | 24 mths |