# The Police & Crime Commissioner for Bedfordshire

# Capital and Treasury Strategy 2020/21

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## 1. Introduction

1.1 The Local Government Act 2003 requires the Commissioner to “have regard to” the Prudential Code for Capital Finance in Local Authorities and to CIPFA’s Treasury Management in the Public Services: Cross-Sectoral Guidance Notes. The objectives of the prudential code are to ensure that capital expenditure plans of Police & Crime Commissioners (PCC) are affordable, prudent and sustainable and that treasury decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.2 To demonstrate that the Commissioner has fulfilled these objectives the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. These indicators are viewed in parallel with the Capital and Treasury Strategy which sets out the Commissioner’s framework for all aspects of the Commissioner’s capital and investment expenditure, including planning, prioritisation, management, funding and performance monitoring.

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, this Strategy identifies the governance process in place in order to meet these responsibilities.

1.4 Three key areas which feature in the Capital Programme are Estates, ICT and Reserves. There are therefore more detailed strategies focused on each of these key individual areas, identifying the decisions made and how they relate to the Chief Constable and Commissioner’s policing plans.

1.5 The key objectives of the Capital and Treasury Strategy are:

- Identify objectives and framework to evaluate proposed capital expenditure, to ensure this is focused on meeting the pledges given by the Commissioner
- Consider options available for funding capital expenditure and how resources may be maximised, identifying resources available for capital investment over the Medium Term Plan period.
- Establish effective arrangements for the budget management of capital expenditure to ensure projects are delivered to timescales and with value for money
- Provide treasury limits and policies which will limit risk associated with the borrowing / investment activities undertaken in order to finance the planned capital expenditure.
- Monitor the current and anticipated treasury position by use of prudential indicators.
- Identify the borrowing strategy required in order to fund new capital expenditure
- Identify the investment strategy to ensure an overall balance between rate of return and security of investment which aligns to the organisations risk appetite.

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. This strategy also assess the affordability of the revenue charges arising from decisions on capital expenditure, these must be limited to a level whereby increases in charges to revenue are affordable to the Commissioner.

## 2. Objectives & Framework for Capital Expenditure

2.1 New capital investment plans are targeted at meeting the pledges and policing commitments given by the PCC and aligned to the aims set out in the PCC's Police & Crime Plan and associated delivery plan. They also look to deliver the associated strategies for each strand of the capital programme.

2.2 The primary objective of the **Estates Strategy** is to ensure the estate provides the most effective and efficient solution to the operational needs of the Force. By having an on-going proactive maintenance programme and carrying out condition surveys it aspires to maintain all buildings to a level that ensures buildings are safe and running costs are kept to a minimum.

2.3 The Estates Strategy determines the areas of investment required to maintain and enhance assets in order to make the best use of the premises available. Focus is given to investing in energy saving initiatives which reduce future running costs, to rationalisation of premises through joint working arrangements and optimising capital receipts from the sale of land and buildings.

2.4 Larger projects on the horizon include the development of the HQ site to include a permanent custody provision, the modernisation of Luton Police Station and a window replacement programme at HQ, Luton & Dunstable Police Stations.

2.5 The BCH **ICT Strategy**, supported by the ICT Delivery Plan, defines the BCH ICT approach, vision, and the key deliverables for decision making over a 5 year period to 2021. The vision is to be integrated with the operational functions and executive decision making process ensuring that technical solutions and resources are aligned to the Policing Vision 2025, Corporate Strategies, Police & Crime Plans and operational objectives. To do this the BCH Collaborated ICT department will implement an operating and resource model designed to integrate ICT into all areas of policing, removing duplication, providing single points of contact, enabling first time call resolution and providing a consistent level of ICT service throughout the organisation.

2.6 The Bedfordshire ICT Capital programme is extracted from the Tri-Force Capital programme developed by the Head of Service and closely aligned to the aims of the ICT strategy and follows the appropriate governance arrangements.

2.7 The final components of the Capital Programme are the **Vehicle** replacement programme which aims to maintain the Force's operational vehicle fleet in optimum condition maximising the useful life of vehicles while still maintaining operational effectiveness. A small **equipment** budget is also maintained for items not included in the estates, ICT or fleet programmes, this includes Bedfordshire's share of equipment used by the collaborated Joint Protective Services function.

## 3. Options for Funding Capital Expenditure

3.1 Policing bodies have seen the continual reduction in the basic formula grant allocations for capital projects to such an extent that they do not impact on decision making process for the capital programme. The PCC will continue to maximise future specific grant allocations from the Home office such as the police uplift grant & surge funding as and when they become available.

3.2 In addition to specific revenue funds previously set aside to finance capital projects in order to create a capital expenditure reserve, smaller specific projects may be provided with revenue funding in order to release pressure on the financing of the capital programme

3.3 The PCC will continue to consider external and internal borrowing on a cautious and prudent basis. External borrowing will need to be funded each year from within the revenue budget, internal borrowing will reduce cash flow resources and these options are considered in conjunction with current interest rates and other relevant prudential indicators addressed in this capital and treasury strategy.

3.4 Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the PCC's priorities. Cash receipts from the disposal of surplus assets are only to be used to fund new capital investment.

3.5 Contributions will continue to be sought from developers towards provision of public or private assets or facilities. In some cases contributions are to mitigate the impact of their development on communities and often referred to as Section 106. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects.

## 4. Capital Budget Management

4.1 Depending on the size of the project a programme board may be set up with key stakeholders to manage and progress the project, identifying any risks which could affect the project or the organisation. Any risks deemed high for the organisation as a whole will be included on the Force risk register and managed through the Business Change & Continuous Improvement Board.

4.2 Project Managers will monitor their capital programme on a monthly basis and will have regular meetings with the Finance Department. Quarterly reports will be submitted to the PCC's Strategic Board that update progress against each programme and reflect:

- New resource allocations
- Slippage in programme delivery
- Programmes removed or reduced
- Virements between schemes and programs to maximise delivery
- Revisions to spend profile and funding to ensure ongoing revenue costs are minimised

## 5. Treasury Limits for 2020/21 to 2022/23

5.1 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.

5.2 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.

5.3 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.

5.4 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.

## 6. Prudential Indicators for 2020/21 – 2022/23

6.1 The prudential indicators, attached at Appendix A, are relevant for the purposes of setting an integrated Capital and Treasury Strategy. The financial data that sits behind them are based on the capital programme and medium term plan reports. These indicators will be reviewed again and updated at the mid and end of the financial year to reflect adjustments made to the capital programme and borrowing decisions. The following paragraphs provide a brief explanation.

6.2 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. This indicator gives the percentage of the annual revenue budget which is being used to finance capital. Over the next three years the effect of borrowing to fund the capital programme causes the indicator to rise more sharply than in previous years, this is particularly true in 2021/22 & 2022/23 as we borrow to finance the HQ redevelopment. 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.

6.3 The need to borrow is also drawn out in the capital financing requirement, despite planned capital receipts we expect to have to borrow to reach this requirement and this is incorporated in the authorised limit for external debt that rises along with our projected borrowing. The authorised limit represents the maximum we intend to borrow. Borrowing will only take place if approved by the Chief Finance Officer on the basis that we are content that there is a need to borrow and we can afford it. These costs will always be considered when reviewing the medium term plan.

## 7. Current Portfolio Position

7.1 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.

7.2 The Commissioner's treasury portfolio position as at 31st March 2020 comprised:

| | | Principal £'000 | Ave. Rate % |
|---|---|---|---|
| Fixed Rate Borrowing | PWLB | 11,020 | 3.50 |
| **Total Debt** | | **11,020** | **3.50** |
| Fixed Term Investments | | 5,000 | 0.71 |
| Notice Accounts | | 8,973 | 0.50 |
| **Total Invested** | | **13,973** | **0.61** |

7.3 The maturity dates of the fixed rate borrowing range from 4 to 40 years as at 31st March 2020.

7.4 All fixed term investments were made for 12 months or less and notice accounts require up to 95 days' notice.

## 8. Prospects for Interest Rates

Short Term Rates

8.1 As at 7th May 2020 the base rate stands at 0.10%. Link Asset Services provide a treasury advice service to the Commissioner and their latest forecast suggests that this rate will remain constant during the 2020/21 financial. The impact of Covid19 will see the economy contracting by as much as 15%. The rates are likely to be left this low in an effort to support the economy. This reduction in interest rates occurred after the budget was set and will mean forecasts for investment income will be significantly lower than the budget.

Long Term Rates

8.2 The Police & Crime Commissioner plans to borrow £6.4M from the PWLB during 2020/21. While from time to time, gilt yields and therefore PWLB rates, can be subject to exceptional levels of volatility due to a number of reasons this is not expected to occur in 2020/21.

8.3 Treasury advisors anticipate that the 25 year PWLB interest rate of 2.5% could begin to rise during the second quarter of 2021 to 2.6% but there is so much uncertainty in the market this could equally reduce by a similar amount. The Police & Crime Commissioner is able to obtain a discount of 0.2% from the Government which is offered to principal local authorities who provide information as required on their plans for long term borrowing and associated capital spending. This forecasts are naturally cautious and will not only be influenced by the current Covid19 pandemic but also on the assumption that Parliament and the EU agree an orderly Brexit.

8.4 Economic and interest rate forecasting remains difficult with many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year as a result of Covid19 and Brexit.

## 9 Borrowing Strategy

9.1 The main objectives of the borrowing strategy for 2020/21 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”).

9.2 Borrowing is usually undertaken each year to finance the capital programme. The financing requirement for 2020/21 capital expenditure is estimated to be £6.40M.

9.3 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. Planned borrowing may change should the level of capital receipts be significantly different to that anticipated in the capital programme.

9.4 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.

9.5 No temporary debt should be acquired during 2020/21 as the Commissioner has instant access accounts that can be used to balance cash flow requirements.

## 10 Annual Investment Strategy

10.1 The Commissioner has regard to the Government's Guidance on Local Government Investments and the Chartered Institute of Public Finance & Accountancy'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

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

**Specified Investments**

10.3 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

**Specified Investments**

10.4 The PCC expects to have a net surplus of funds at the start of the 2020/21 financial year but this may change by year end. The PCC will still have the ability to invest funds with those organisations included on its approved lending list (attached as Appendix B) all year round. This list is as at 7th May 2020 but is updated weekly during the year.

10.5 The creditworthiness service provided by Link Asset Services is used to formulate the lending list for fixed term deposits. Given the uncertainty in the UK Markets and the future uncertainty as a result of the Covid19 pandemic and Brexit negotiations this list is likely to be subject to a large degree of rating fluctuation during the year, currently the minimum sovereign rating applied to the lending list by Link Asset Services is AA-, with the UK currently having a AA sovereign rating.

10.6 The modelling approach used by Link 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 years |
| Orange | £8M | 1 year |
| Blue | £8M | 1 year |

| | | |
|---|---|---|
| Red | £6M | 6 months |
| Green | £6M | 100 days |

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

10.8 Weekly creditworthiness updates are provided by Link 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 and the lending list updated accordingly.

10.9 This criteria will be applied to UK and foreign banks, however a further restriction applies to foreign banks where a maximum of £6M is permitted to be placed for a duration of up to one year.

10.10 For consistency, this approach will also be applied to all funds placed in instant access or notice accounts.

**Non-Specified Investments**

10.11 These are any other investments that do not meet the criteria in 10.3 above.

10.12 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.

10.13 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.

10.14 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 Commisioner’s Chief Finance Officer.

10.15 No other non-specified investments will be made.

## 11 Investment Strategy – External Managers

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

11.2 The level of available funds and their duration will be kept under review by the Chief Finance Officer and, if it is deemed appropriate, the use of external cash managers will be considered. External cash managers will only be used if clear financial advantage can be demonstrated. Any appointment of external cash managers will be subject to an open tendering exercise.

## 12 Banking Arrangements

12.1 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.

12.2 The Commissioner's day to day banking services are provided by Nat West Bank, with the charges and level of service provided being reviewed annually. The investment criteria at paragraph 10.1 is not applied to the day to day funds held with Nat West although the balance is subject to a £6M limit. It is excepted that for periods under 14 days the balance may be higher to allow for short term cash flow fluctuations depending on the timing of large value grants and contract expenditure arising from the Force's regional commitments and capital expenditure plans. This will pose minimum risk as all funds are held on instant access terms and will provide continuity to suppliers.

## 13 Conclusion

13.1 The preceding sections set out the Commissioner's strategies for treasury management and capital programmes. 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.

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