THE POLICE & CRIME COMMISSIONER FOR BEDFORDSHIRE

TREASURY STRATEGY STATEMENT 2015/16

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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 2015/16 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 2015/16 to 2017/18

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 2015/16 – 2017/18

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. 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. 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) is the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of 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 2015/16 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. This is a statutory limit determined by the Local Government Act 2003 which needs to be set or revised by the Commissioner. This is a prudent estimate and includes 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. It reflects the level of external debt which, while not desired, could be afforded in the short term but not sustaintable in the long term.

3.6 The operating boundary is based on the same estimates as the authorised limit but does not include the additional headroom to borrow for futures years capital expenditure. 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.

Treasury Management Indicators

3.8 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 could reach or be inexcess 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.

3.9 The indicators for interest rate exposure shown in Appendix A indicate that at any time during 2015/16 fixed rate borrowing will not exceed £12.1M and variable rate exposure will not drop below £12.1M (the minimum expected investment balance).

3.10 Under current regulations, the Commissioner may make investments for periods in excess of 364 days subject to a limit of £6M. 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.

3.11 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.

3.12 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 2014 comprised:

		Principal £'000	**Ave. Rate %**
Fixed Rate Funding	PWLB	7,720	4.20
Total Debt		**7,720**	**4.20**
Fixed Term Investments		10,000	0.61
Instant Access Accounts		16,600	0.84
Total Invested		**26,600**	**0.75**

4.3 The maturity dates of the fixed rate borrowing range from 8 to 23 years as at 31st December 2014 and all fixed term investments were made for 6 months or less.

5 Prospects for Interest Rates

5.1 Short Term Rates

As at 2 March 2015 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 April 2016 and then increase by 0.25%, with future rate rises expecting to take the base rate up to 2.0% by the end of 2018. Therefore markets do not anticipate any increase in investment returns during 2015/16.

5.2 Long Term Rates

The Police & Crime Commissioner expects to borrow £3.95 from the PWLB during 2015/16. These rates are subject to constant fluctuation as they are based on UK gilt yields which are difficult to predict especially due to the ongoing weakness in Eurozone economies.

Although PWLB interest rates are currently on a downward trend, treasury advisors anticipate that the 25 year PWLB interest rate of 3.4% will rise by 0.1% each quarter until the end of 2016. However, 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.

6 Borrowing Strategy

6.1 The main objectives of the borrowing strategy for 2015/2016 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 2015/16 capital expenditure is estimated to be £10.9M on the basis that borrowing of £3.5M takes place in 2015/16. 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 and working capital balances have been used as a temporary measure. This is expected to move to an over borrowed position once the planned borrowing of £0.9M is undertaken prior to the start of the 2015/16 financial year.

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. Planned borrowing may be reduced should the Police & Crime Commissioner accumulate capital receipts as a result of rationalising the estate.

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 2015/2016 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 catagories.

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 2015/16 and will invest funds with those organisations included on its approved lending list (attached as Appendix B).

8.6 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.

8.7 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 years
Orange	£8M	1 year
Blue	£8M	1 year
Red	£6M	6 months
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.

8.8 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 and the lending list updated accordingly.

8.9 Thie 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+).

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

8.11 Non-Specified Investments

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

8.12 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.

8.13 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.

8.14 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.

8.15 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 Chief Finance Officer 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. It is possible that NatWest may be downgraded during the year depending on the level of government support that continues to be provided, this may mean that it will not meet the minimum investment criteria at paragraph 8.7, it is judged that in this event the rating change will be short term and will not impact on service levels and therefore the current arrangements will continue. This will pose minimum risk as all funds are held on instant access terms and will provide continuity and efficiency of service to customers and suppliers.

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:

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Force HQ
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