THE POLICE & CRIME COMMISSIONER FOR BEDFORDSHIRE

TREASURY STRATEGY STATEMENT 2013/14

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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 (Sector), 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 2013/14 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 2015/16

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".

2.2 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.

2.3 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.

2.4 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.

2.5 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 2013/14 – 2015/16

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 2012/13 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 we will carry 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 Members should note that the authorised limit determined for 2013/14 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 2013/14 fixed rate borrowing will not exceed £11.22M and variable rate exposure or investments net of short term borrowing will not drop below £7.0M.

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 2012 comprised:

		Principal £'000	**Ave. Rate %**
Fixed Rate Funding	PWLB	6,720	4.50
Total Debt		**6,720**	**4.50**
Fixed Term Investments		6,750	1.15
Instant Access Accounts		6,000	0.42
Total Invested		**12,750**	**0.81**

4.3 The maturity dates of the fixed rate borrowing range from 10 to 24 years as at 31st December 2012 and all fixed term investments mature within 90 days.

5 Prospects for Interest Rates

5.1 Short Term Rates

As at 7th January 2013 the base rate stands at 0.50%. Sector Treasury Services has been appointed as treasury adviser to the Commissioner and their latest forecast suggests that this rate will remain until April 2015 and then increase by 0.25%.

5.2 Long Term Rates

It is expected that the PWLB 25 year interest rate will remain around its current rate of 3.8% until June 2014, although these rates are based on UK gilt yields which are difficult to predict. Gilt yields are currently subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

6 Borrowing Strategy

6.1 The main objectives of the borrowing strategy for 2013/2014 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 2013/2014 capital expenditure is estimated to be £10.5M on the basis that borrowing of £2.5M takes place in 2012/13.

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 Stragety.

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 During 2013/2014 we do not expect to acquire temporary debt 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 2013/14 and will invest those funds through the money market 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, the long term rating will not have a bearing.

8.8 Ratings are those given by Fitch, the credit rating agency. In compiling the lending list, other factors such as support rating and individual rating, which Fitch also provide, have been taken into consideration. The lending list is regularly reviewed to ensure that the organisations included maintain their credit ratings at the required level.

8.8 .The following rating criteria will apply:-

Short term rating of F1 or above.	£7M investment limit in instant access accounts only
Short term rating of F1+ and long term rating A or above and viability rating between A and B and a support rating of 1 or 2	£7M investment limit *
Short term rating of F1+ and long term rating A or above and viability rating between C and A/B and a support rating of 3	£5M investment
Short term rating of F1 and long term rating A or above and viability rating C or above and a minimum support rating of 3	£5M investment limited for 3 months
Where long term rating one rating below criteria and short term, support and viability ratings meet criteria	£2M investment limited for 3 months

* Currently there is no investment availablilty at this level but criteria is included in the event credit ratings improve.

8.9 Previously the Commissioner has been able to invest with UK and non-UK banks if the sovereign rating met the minimum criteria of AAA. As the UK is currently one of the few countries who still hold a AAA sovereign rating there has been no investment with non-UK banks. As there is a continued risk that the UK will lose its AAA rating it is suggested that a minimum soverign rating is not applied, instead the Commissioner is limited to investing with UK banks and building societies only. The slight down grading of the investment criteria reflects the current economic situation and still limits our investments to those organisations considered amongst the safest options available.

8.10 As well as Fitch ratings the Commissioner will also take into account information from the financial press, its external advisors, data within the market, colleagues from other local authorities and also whether the organisation is supported by their government.

8.11 All specified investments should be limted to a 3 month duration with the exception of except government owed institutions.

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;
- all such investments do not in total exceed £5M.

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 Commisioner'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.

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	2011/12 Actual	2012/13 Probable Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Affordability Indicators					
Ratio of financing costs to net revenue stream	0.32%	0.45%	0.62%	0.70%	0.58%
Estimated incremental impact of capital investment decisions on Band D Council Tax		£1.57	£2.51	£2.94	£2.32
Capital Expenditure Indicators					
Capital Financing Requirement	£6.6M	£8.9	£10.5M	£11.8M	£13.0M
External Debt Indicators					
Authorised Limit for External Debt					
Borrowing	£14.7M	£15.6M	£16.6M	£17.6M	£18.6M
Other long term liabilities		-	-	-	-
Total	£14.7M	£15.6M	£16.6M	£17.6M	£18.6M
Operational Boundary for External Debt					
Borrowing	£6.7M	£9.2M	£11.2M	£12.9M	£14.6M
Other long term liabilities		-	-	-	-
Total	£6.7M	£9.2M	£11.2M	£12.9M	£14.6M
Treasury Management Indicators					
Upper limit for fixed interest rate exposure					
Fixed rate borrowing as an absolute amount	£6.7M	£9.2M	£11.2M	£12.9M	£14.6M
Upper limit for variable interest rate exposure					
Variable rate borrowing as an absolute amount	-£8.4M	-£8.1M	-£7.0M	-£6.9M	-£6.9M
Upper limit for total principal sums invested for over 364 days (per maturity date)	£5.0M	£5.0M	£5.0M	£5.0M	£5.0M

Maturity structure of new fixed rate borrowing during 2011/12	**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%

BEDFORDSHIRE POLICE AUTHORITY

LENDING LIST - Fixed Term Deposits Only

Organisation	Sovereign	Banking Group	FITCH Ratings Long Term	Short Term	Viability	Support	Current Financial Limit	Duration Limit (Months)	
Other Local Authorites, Police and Fire Authorities							£5M	12	
Central Government - UK Debt Management Office Deposit Facility							£5M	12	
UK Clearing Banks and Subsidaries									
Barclays Bank plc	AAA	Barclays	A	F1	a	1	£5M	3	
Clydesdale Bank	AAA	National Austrailia Bank	A	F1	bbb	1	£5M	3	
HSBC Bank plc	AAA	HSBC	AA-	F1+	a+	1	£5M	3	
Lloyds TSB Bank plc	AAA	Lloyds TSB	A	F1	bbb	1	£5M	3	
National Westminster Bank plc	AAA	RBS Group	A	F1		1	£5M	3	Government Backed
Bank of Scotland	AAA	HBOS	A	F1		1	£5M	3	Government Backed
Royal Bank of Scotland plc	AAA	RBS Group	A	F1	bbb	1	£5M	3	Government Backed
Santander plc	AAA	Santander	A	F1	a	1	£5M	3	
UK Building Societies									
Nationwide Building Society	AAA	N/A	A+	F1	a+	1	£5M	3	

Treasury Management Investment Critera - Minimum Ratings

UKBS	A	F1
UKCB	A	F1