TREASURY STRATEGY STATEMENT 2018/19

THE POLICE & CRIME COMMISSIONER FOR BEDFORDSHIRE

TREASURY STRATEGY STATEMENT 2018/19 – 20/21

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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: Code of Practice. The objectives of the prudential code are to ensure that capital expenditure plans of local authorities 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 Commisioner 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 to the Treasury Mangement Strategy which 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 2018/19 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 2018/19 to 2020/21

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 2018/19 – 2020/201

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 will drop in 2019/20 as no borrowing is planned in 2018/19 and capital receipts are expected in both 2018/19 and 2019/20, the rate and will then increase as the force makes additional borrowing decisions.

3.3 A key indicator for measuring affordability is 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 although this is halted in 2019/20 as expected capital receipts exceed the amount we plan to borrow. These costs will always be considered when reviewing the medium term plan.

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 January 2018 comprised:

		Principal £'000	Ave. Rate %
Fixed Rate Borrowing	PWLB	7,720	4.20
Total Debt		**7,720**	**4.20**
Fixed Term Investments		7,000	0.71
Notice Accounts		4.017	0.59
Total Invested		**14,017**	**0.67**

4.3 The maturity dates of the fixed rate borrowing range from 6 to 21 years as at 31st January 2018.

4.4 All fixed term investments were made for 12 months or less and notice accounts require between 30 and 95 days notice. In addition the Commissioner held £3.6M in a current account with Natwest at 0.15% in order to meet short term cashflow requirements associated with regional and national commitments.

5. Prospects for Interest Rates

Short Term Rates

5.1 As at 19th March 2018 the base rate stands at 0.5%. Link Asset Services has been appointed as treasury adviser to the Commissioner and their latest forecast suggests that this rate will rise by 0.25% in May 2018 and then increase by 0.25% in November 2018 and November 2019. This is a slightly faster rise in interest rates than previously priced into the markets therefore it is expected that investment returns will rise during 2018/19.

Long Term Rates

5.2 The Police & Crime Commissioner expects to borrow £2.5M from the PWLB before the end of 2017/18 . PWLB rates are subject to constant fluctuation as they are based on UK gilt yields which are difficult to predict.

5.3 Treasury advisors anticipate that the 25 year PWLB interest rate of 2.66% will begin to rise slowly at the end of 2018 to 3% by the end of 2018 and maintain a steady increase during 2019 and 2020. 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.

5.4 The major central banks are aware that there is a need to return to a more normal monetary policy on interest rates at an appropriate point as low interest rates leave them reduced options to counter any future economic recession. Effecting a steady and appropriate interest rate rise over the medium term period will be a key factor in maintaining economic growth at a sustainable rate and existing inflationary pressures will be a key factor in how quickly interest rates will rise.

6 Borrowing Strategy

6.1 The main objectives of the borrowing strategy for 2018/19 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 2017/18 capital expenditure is estimated to be £3.9M and additional borrowing of £2.5M is expected to take place before the end of 2017/8. Based on these borrowing plans this puts the Commissioner into an over-borrowed position as the total amount of debt will be greater that the capital financing requirement although we will remain within our "authorised limit". It is likely this will be maintained throughout the current capital programme as per the Prudential Indicators shown at Appendix A. The effect of this will be considered ahead of any borrowing decision as we weigh up the prospect of healthy reserve balances against potentially carrying more debt than required.

6.3 The Strategy has been written on the basis that £0.7M has been borrowed in advance of need, this has been undertaken to fund the capital programme for 2018/19 and 2019/20 whilst maintaining a healthy reserve position. The Commissioner is expecting significant capital receipts during 2018/19 and aims to maintain reserve balances until these receipts are realised. In addition interest rates are expected to rise so it is anticipated that a lower borrowing rate will be obtained by borrowing this amount earlier which will offset the interest cost. The organisation's policy is to only borrow in advance of need where there is a clear business case for doing so.

6.4 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 additional 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 2018/19 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 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

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.

Specified Investments

8.4 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

Strategy for Specified Investments

8.5 The Police Commissioner expects to have a net surplus of funds throughout 2018/19 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

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

8.9 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.

8.10 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.

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

Non-Specified Investments

8.12 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 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 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. The investment criteria at paragraph 8.7 is not applied to the day to day funds held with Natwest 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 grant income and expenditure due to the forces regional commitments. 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 in the event of any rating fluctuations.

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
Woburn Road
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