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The Police & Crime Commissioner for Bedfordshire

Capital and Treasury Strategy 2021/22

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Contents

Page

1	Introduction	1
2	Objectives & Framework for Capital Expenditure	2
3	Options for Funding Capital Expenditure	3
4	Capital Budget Management	3
5	Treasury Limits for 2021/22 to 2023/24	4
6	Prudential Indicators for 2021/22 to 2023/24	4
7	Current Portfolio Position	5
8	Prospects for Interest Rates	6
9	Borrowing Strategy	7
10	Annual Investment Strategy	7
11	Investment Strategy – External Managers	9
12	Banking Arrangements	10
13	Conclusion	11
	Appendix A - Prudential Indicators	
	Appendix B - Approved Lending List	
	Appendix C – Reserves Policy	

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.

- 1.7 As part of the Treasury management Strategy the Policy for Reserves has been reviewed. This is contained in Appendix C and it is recommended that the level of the Police Fund is set at 3%.

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, this has then been translated into medium term plan to 2024/25. 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. Consideration will also be given to introducing regular revenue contributions to the capital budget as part of the base budget to support business as usual investments such as ICT, Estates or the Vehicle Fleet.
- 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 2021/22 to 2023/24

- 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 2021/22 – 2022/24

- 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 is 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 four years the effect of borrowing to fund the capital programme causes the indicator to rise steadily.
- 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 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.

- 6.4 The PCC is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 6.5 MHCLG regulations have been issued which require the Board to approve an MRP Statement in advance of each year. A variety of options are available, so long as there is a prudent provision. The Board is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2020 the MRP policy will be:

Based on CFR – MRP will be based on the CFR (option 2);

This provides for an approximate 2% reduction in the borrowing need (CFR) each year.

From 1 April 2020 for all unsupported borrowing the MRP policy will be

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (option 3);

The combination of these options provide for a reduction in the borrowing need over approximately the asset's life.

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 28th February 2021 comprises of:

		Principal £'000	Ave. Rate %
Fixed Rate Borrowing	PWLB	11,020	3.50
Total Debt		22,320	3.50
Fixed Term Investments		3,000	0.10
Total Invested		3,000	0.10

- 7.3 The maturity dates of the fixed rate borrowing range from 3 to 49 years as at 31st March 2021.
- 7.4 All fixed term investments were made for 12 months or less and notice accounts require up to 95 days' notice.

7.5 Planned borrowing for the 20/21 capital programme of £11.3M is yet to take place, it is expected to have taken place by 31st March 2021.

8. Prospects for Interest Rates

8.1 The base rate stands at 0.10% and has done since May 2020. Link Asset Services provide a treasury advice service to the Commissioner and their latest forecast suggests that this rate will remain constant during the 2021/22 financial year.

Link Group Interest Rate View		8.2.21											
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

8.2 As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

Gilt yields / PWLB Rates

8.3 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as government bond yields of major countries around the world are expected to rise little during this time. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

8.4 As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are near to historic lows. The Police & Crime Commissioner plans to borrow £18.66M from the PWLB during 2021/22 and will continue to monitor the PWLB rates in order to maximise the value to be gained by borrowing at these historically low interest rates.

8.5 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.

8.6 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 2021/22 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 2021/22 capital expenditure is estimated to be £18.66M.

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 The planned borrowing maintains an under borrowed position before moving to an over borrowed position in 2023/24 and 2024/25. This means that the capital borrowing need, (the Capital Financing Requirement), has not yet been fully funded with loan debt as cash supporting the reserves, balances and cash flow will be used as a temporary measure until 2023/24.

9.6 Due to the level of under borrowing in 2021/22 and 2022/23 the Police and Crime Commissioner is likely to need to undertake short term borrowing to balance cashflow requirements. It is expected that borrowing at fixed or variable rates can be utilised via other local authorities or the PWLB for short term periods of 3-6 months.

9.7 Rescheduling of current borrowing in the Police & Crime Commissioners debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020. If rescheduling is done it will be reported to the Board at the earliest meeting following its action.

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 will have the ability to invest funds with those organisations included on its approved lending list (attached as Appendix B). This list provided is as at 3rd March 2021 but is updated weekly throughout 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, this list is likely to be subject to a large degree of rating fluctuation during the year. The Police & Crime Commissioner applies the Link methodology that only counterparties from the UK and from other countries with a minimum sovereign rating of AA- are to be used.

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 another local authority or with a AAA rated Money Market Fund (CNAV or LVNAV).

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

Non-Specified Investments

- 10.10 These are any other investments that do not meet the criteria in 10.3 above.
- 10.11 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.
- 10.12 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.
- 10.13 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.
- 10.14 No other non-specified investments will be made.

11 Investment Strategy

External Managers / In House Funds

- 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.

Investment Returns

- 11.3 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. Forecast investment earnings have been based on 3 month deposits obtaining 0.10%.
- 11.4 At the end of the financial year the Police & Crime Commissioner will report on the investment activity undertaken in the year as part of the Outturn Report.

Negative Investment Rates

- 11.5 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in February 2021 stated that financial institutions would not be ready to implement negative rates for six months, some deposit accounts were offering negative rates for shorter periods prior to this latest announcement. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances.
- 11.6 As for money market funds (MMFs), yields have fallen near to zero. Some managers have resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is much more demand for investments at the short end of the market keeping rates low.
- 11.7 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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.
- 13.3 The Policy for Reserves has been included in this review.