

**OFFICE OF THE POLICE AND CRIME COMMISSIONER  
FOR HUMBERSIDE  
DECISION RECORD**

Decision Record Number: **29/2015**

Title: **Annual Treasury Management Report 2014/15**

**Executive Summary:**

The Annual Treasury Management Report for 2014/15, which had been recommended by the Joint Independent Audit Committee for approval, was submitted.

**Decision:**

That the Annual Treasury Management Report 2014/15 be approved;

**Background Report: Open**

**Police and Crime Commissioner for Humberside**

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature

*Matthew Crowe*

Date 08.07.2015

## **ANNUAL TREASURY MANAGEMENT REVIEW REPORT 2014/15**

1. The Annual Treasury Management Review Report provides comprehensive information on treasury management activity undertaken during the period 1 April 2014 – 31 March 2015 and provides a commentary on events affecting the money markets during the financial year.

2. **Recommendations**

It is recommended that the Committee considers and comments on the Annual Treasury Management Review Report for 2014/15 prior to submission to the Police and Crime Commissioner for approval.

3. **Background**

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance which allows local authorities, including police and crime commissioners (PCCs), to determine their own programmes for capital investment. The Prudential Code has been developed as a professional code of practice to support authorities, PCCs and other organisations, when making decisions on strategic planning, asset management and capital investment.

The Prudential Code seeks to ensure that there is a clear framework within which to operate so that authorities and PCCs can satisfy themselves that investment plans are considered affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The process is designed to support and record local decision making in a manner that is publicly accountable.

By Regulation, there is a requirement to have regard to the Prudential Code when carrying out duties in accordance with the Local Government Act 2003. This report demonstrates compliance with the Prudential Code. It also meets the requirements of CIPFA's Code of Practice on Treasury Management.

A primary requirement of the Code is the formulation and approval by the policy making body, the Police and Crime Commissioner in this case, of a Treasury Management Strategy Statement (TMSS) and a detailed of Treasury Management Practices Statement (TMPS). These set out the responsibilities, delegation and reporting arrangements with regard to treasury management activities.

The TMSS for 2014/15 and updated TMPS were approved by the Commissioner in March 2014. The prudential and treasury indicators were based on the information set out in the Medium Term Resource Strategy (MTRS) which was used to support the precept proposal for 2014/15. This was considered by the Police and Crime Panel (PCP) and subsequently approved by the Commissioner.

The TMSS requires owners of the policy to receive a minimum of a mid-year review and an annual report on treasury management activities. The mid-year

review was submitted to this Committee on 19 December 2014 and was subsequently approved by the Commissioner. Consideration and approval of this report ensures that the requirements of the strategy, and therefore the Code are met.

Treasury Management in this context is defined as: “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

The Annual Review Report has been prepared in conjunction with treasury management advisers Capita Treasury Solutions.

## **INFORMATION**

The Annual Treasury Management Review Report for 2014/15 is set out at Annex A.

In addition to this formal report monthly investment reports are produced by Capita Treasury Solutions and posted in the secure area of the website. This can be accessed by members of this Committee.

Officers have access to daily, weekly briefings and news alerts provided by Capita Treasury Solutions and information from a range of other sources including banks, brokers, the media and professional networks.

The report also draws on discussions at Investment Review Meetings chaired by the Deputy Chief Executive and Treasurer and attended by members of the Treasury Management team and senior Force finance staff. Meetings were held monthly throughout the year on a monthly basis to agree short term actions in light of the latest information on market conditions, creditworthiness of potential counterparties and actual and forecast rates of interest along with details of the current and projected cash flows.

Details of performance and information on the agreed Prudential and Treasury Management Indicators are set out in the attached Appendices to Annex A.

#### **4. Options**

The reporting requirements are intended to ensure that treasury management activity has been conducted in accordance with the agreed policy and strategy and to demonstrate that operations have been performed within agreed limits. There is no option but to consider this report and in order to meet the reporting requirements and ensure compliance with the Prudential Code and to meet reporting requirements.

5. **Risks**

The TMSS sets out detailed information in relation to risks associated with treasury management activity and proposed mitigating actions whilst acknowledging that the risk cannot be entirely eliminated.

The statement, together with the TMPS and the procedures detailed within them are intended to limit the exposure to unforeseen and unbudgeted financial consequences of treasury management activity.

6. **Financial Implications**

The Annual Treasury Management Review Report sets out details of the treasury management activity undertaken in the period 1 April 2014 to 31 March 2015. The financial implications of this activity have been factored into the budget, budget monitoring reports and medium term financial plans. They reflect in year investment and borrowing assumptions and information on current and predicted cash flows together with actual interest rates and interest rate forecasts.

7. **Legal Implications**

The Police and Crime Commissioner is required to comply with the requirements of the Local Government Act 2003 and to have regard to guidance from the Department for Communities and Local Government and the CIPFA Code when determining its treasury management policy and strategies together with detailed practices.

There is a minimum requirement for a mid-term review of treasury management activity to be considered together with an annual review report. The former was considered by this Committee in December 2014 prior to approval by the PCC. This report ensures that the requirements of the strategy, and therefore the Code are met.

8. **Equalities Implications**

There are no equalities implications in the context of the submission.

9. **Consultation**

Capita Treasury Solutions have been consulted on treasury management issues and have provided additional information in relation to the activities undertaken during the year. Officers have also consulted with banks, brokers and have access to treasury management networks to supplement this information. It must be recognised that the responsibility for all decisions with regard to policies, strategy and transactions remains with the PCC and his officers.

10. **Media information**

There are not considered to be any particular media issues in relation to this report which is largely technical in nature.

**Background documents**

JB File Ref: JB/TM/Annual Report/2014/15

**Publication**

The report is open.

**Police and Crime Commissioner for  
Humberside**

**Annual Treasury Management Review  
Report 2014/15**

# Annual Treasury Management Review 2014/15

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## 1. Introduction

*The PCC is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).*

*During 2014/15 the minimum reporting requirements were that the PCC should receive the following reports:*

- an annual treasury strategy in advance of the year*
- a mid-year (minimum) treasury update report*
- an annual review following the end of the year describing the activity compared to the strategy (this report)*

*The regulatory environment places responsibility on the PCC for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved by the PCC.*

*The PCC also confirms that the requirements under the Code to give prior scrutiny to all of the above treasury management reports are met as the Joint Independent Audit Committee (JIAC) considers all of them before they are presented to him for approval. Training on treasury management issues was undertaken on 6 March 2014 by the PCC and DPCC along with JIAC members' to scrutiny their role.*

## 2. The Economy and Interest Rates

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election.

### 3. Overall Treasury Position as at 31 March 2015

At the beginning and the end of 2014/15 the PCC's treasury (excluding borrowing by finance leases) position was as follows:

TABLE 1	31 March 2014 Principal	Rate/ Return	Average Life yrs	31 March 2015 Principal	Rate/ Return	Average Life yrs
Total debt	£30.432 m	3.57%	7.62	£34.985 m	3.36%	7.25
CFR	£57.084 m			£60.849 m		
Over / (under) borrowing	(£26.652 )m			(£25.864 )m		
Total investments	£7.160m	0.60%		£10.540 m	0.59%	
Net debt	£23.272 m	2.97%		£24.445 m	2.77%	

### 4. The Strategy for 2014/15

*The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to*

*be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.*



*In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.*

*The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.*

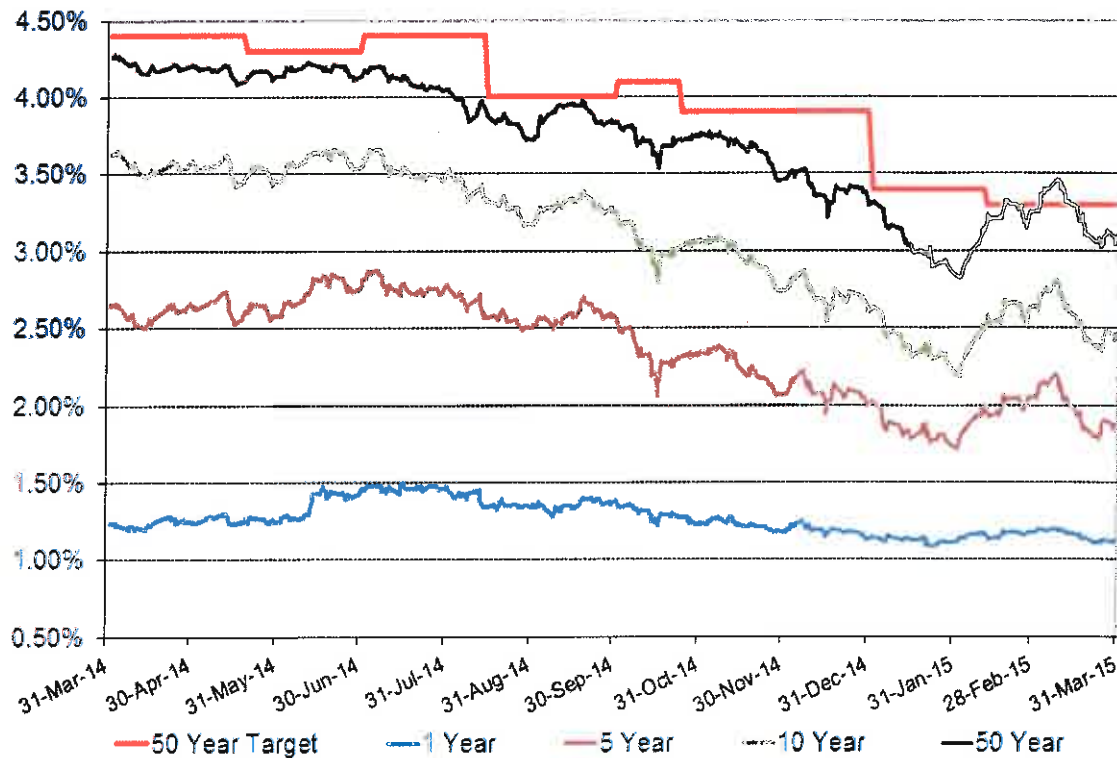
## 5. The Borrowing Requirement and Debt

*The PCC's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).*

	<i>31 March 2014 Actual</i>	<i>Original Estimate 2014/15</i>	<i>Revised Estimate 2014/15</i>	<i>31 March 2015 Actual</i>
Total CFR	<i>£57.084m</i>	<i>£66.726m</i>	<i>£62.277m</i>	<i>£60.849m</i>

## 6. Borrowing Rates in 2014/15

**PWLB borrowing rates** - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



## 7. Borrowing Outturn for 2014/15

**Borrowing** – the following loans were taken during the year: =

Date	Lender	Principal	Type	Interest Rate	Maturity
04/09/2014	PWLB	£2.0m	Fixed interest rate	2.57%	10 years
13/10/2014	PWLB	£2.5m	Fixed interest rate	3.11%	11 years
14/01/2015	PWLB	£2.0m	Fixed interest rate	3.00%	19 years

*This compares with a budget assumption of borrowing at an interest rate of 4.0%.*

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

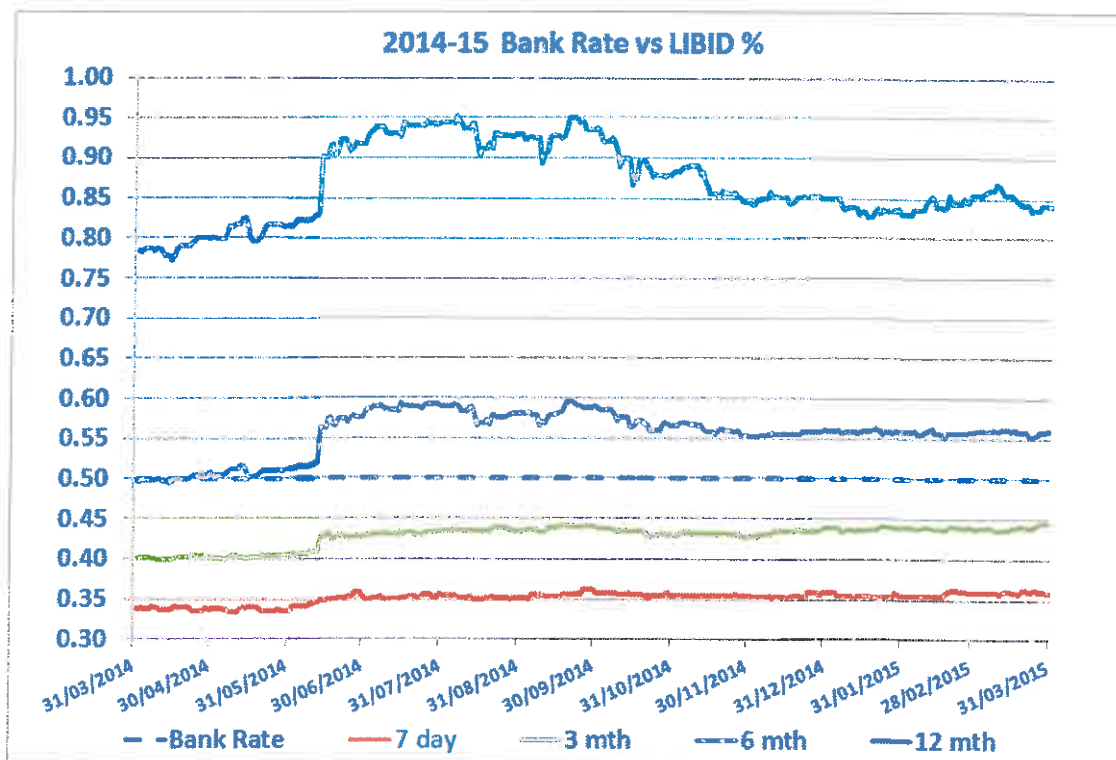
### Repayments

The PCC repaid £1.946m at an average rate of 3.53% during the year in line with the terms of existing loans.

**Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.21%.

## 8. Investment Rates in 2014/15

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



## 9. Investment Outturn for 2014/15

**Investment Policy** = the PCC's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved 20 March 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and there were no liquidity difficulties.

**Investments held by the Council** - the PCC maintained an average balance of £22.473m of internally managed funds. The internally managed funds earned an average rate of return of 0.59%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%. This compares with a budget assumption of £1.000m investment balances earning an average rate of 0.80%.

## 10. Icelandic Bank Defaults

The current position with regards to the investments held in Heritable Bank and Kaupthing, Singer and Friedlander (KSF) when they failed in 2008 are set out in the PCC and Group financial statements for 2014/15.

Recovery rates to date are 94p/£ for the investments in Heritable Bank and 82.5p/£ for KSF and are projected to be 98 to 100p/£ and 85 to 86.5p/£ respectively.

The written down value of these investments at the balance sheet date is now £30k.

## Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2013/14	2014/15	2014/15	2014/15
<b>Extract from budget setting report</b>	<b>Actual</b>	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Actual</b>
Capital Expenditure	£7.700m	£11.985m	£9.595m	£9.236m
Ratio of financing costs to net revenue stream	1.44%	2.08%	2.08%	1.80%
Gross debt	£30.432m	£39.478M	£34.986m	£34.985m
Capital Financing Requirement (CFR)	£57.084m	£66.726m	£62.277m	£60.849m
<b>Incremental impact of capital investment decisions</b>	£ p	£ p	£ p	£ p
Increase in precept/council tax (band D) per annum	£2.53	£5.12	£3.64	£3.64

2. TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2014/15	2014/15
	Actual	Original Estimate	Revised Estimate	Actual
<b>Authorised Limit for external debt -</b>				
borrowing	£73.304m	£70.869m	£69.211m	£59.122m
other long term liabilities	£ 0.556m	£ 0.278m	£ 0.572m	£ 0.294m
TOTAL	£73.860m	£71.147m	£69.783m	£59.416m
<b>Operational Boundary for external debt -</b>				
borrowing	£71.304m	£68.869m	£67.211m	£57.122m
other long term liabilities	£ 0.556m	£ 0.278m	£ 0.572m	£ 0.294m
TOTAL	£71.860m	£69.147m	£67.783m	£57.416m
<b>Actual external debt</b>	£30.432m	£39.478m	£34.986m	£34.985m
<b>Upper limit for fixed interest rate exposure</b>	£50.000m	£39.756m		£39.756m
Net principal re fixed rate borrowing / investments	£ 23.272m			£ 24.445m
<b>Upper limit for variable rate exposure</b>	£50.000m	£1.000m		£1.000m
Net principal re variable rate borrowing / investments	£ 0.000m			£ 0.000m
<b>Upper limit for total principal sums invested for over 364 days*</b>	£ 0.000m			£ 0.000m
<ul style="list-style-type: none"> <li>All investments are for less than one year</li> </ul>				

Maturity structure of fixed rate borrowing during 2014/15	2013/14 Actual	upper limit	lower limit	2014/15 Actual
under 12 months	6%	50%	0%	9%

12 months and within 24 months	9%	75%	0%	8%
24 months and within 5 years	26%	80%	0%	26%
5 years and within 10 years	50%	80%	0%	39%
10 years and above	9%	100%	0%	18%

## Appendix 2: Graphs

