

OFFICE OF THE POLICE & CRIME COMMISSIONER

TITLE:	Treasury Management Update Report
DATE:	21st December 2016
TIMING:	Routine
PURPOSE:	For monitoring

1. RECOMMENDATION

1.1 To consider the Treasury Management Activity for the period 1st April 2016 to 31st October 2016.

2. INTRODUCTION & BACKGROUND

2.1 Treasury Management Activity is reported twice yearly to Joint Audit Committee (JAC) members. This is the first Treasury Management Activity report in 2016/17.

2.2 Treasury Management Activity includes investment and borrowing transactions.

3. ISSUES FOR CONSIDERATION

3.1 INVESTMENTS

3.1.1 Appendix 1 summarises fixed investments on deposit with counterparties as at 31st October 2016. The listing shows that the Police and Crime Commissioner's (PCC's) current fixed investment portfolio totals £53.50m. On maturity these deposits will earn an average rate of return of 0.353%, which will amount to £0.113m of earned interest income on maturity.

Appendix 2 summarises money market investments as at 31st October 2016. The listing shows a current portfolio of £6.25m, invested across 5 triple-A rated funds. The current average yield is 0.279%, which will provide an estimated annual interest return of 0.033m, if the current investment level is maintained and rates remain stable.

3.1.2 The current investment portfolio composition is shown in Table 1 below:

Table 1

<u>Counterparty</u>	<u>Deposit £'m</u>	<u>Portfolio %</u>
UK Debt Management Office	0.00	0.0
Banks & Building Societies	1.00	1.67
Local Authorities	52.50	87.87
Money Market Funds	6.25	10.46
	59.75	100.0

3.1.3 As per the 2016/17 Treasury Management Strategy all investment deposits

	are with counterparties that have at least an “F1/P1/A1” short term credit rating (Fitch, Moody’s and Standard and Poor’s). All money market funds are triple-A rated.																																			
3.1.4	<p>No single fixed term deposit exceeds a time limit of 364 days. There are currently two deposits, which on maturity will have been on deposit for 364 days. These are with Southampton City Council (£5m) and North Tyneside Metropolitan Borough Council (£3m). On maturity these deposits will earn interest of £0.032m.</p> <p>The weighted average maturity of fixed term investments as at the 31st October was 142 days and 44% of investments have a maturity of between 3 to 6 months.</p> <p>In addition, no single or multiple deposits with a single counterparty exceeded the money limit of £3m for Banks and Building Societies and £10m for Local Authorities. The most invested with one, single counterparty is £10m with London Borough of Islington.</p> <p>There is no money limit for investments with the UK Debt Management Office (DMO) however no funds are currently invested with the DMO due to the low rate of return of 0.15% (up to 3 months) and 0.10% (3 to 6 months) which is well below the average rate of return of 0.353% on the current investment portfolio.</p>																																			
3.1.5	<p>Appendix 3 details fixed term investment deposits made and repaid during the period 1st April 2016 to 31st October 2016. Investment interest earned on matured deposits during this period totalled £0.122m on a cash basis. The average rate of return on these deposits was 0.354%. For the financial year 2015/16, the weighted average rate of return on investment deposits was 0.394%.</p> <p>Table 2 below details the movement in money market funds during the period 1st April 2016 to 31st October 2016. Funds earned an average rate of return of 0.27% over this period.</p> <p>Table 2</p> <table border="1"> <thead> <tr> <th><u>Counterparty</u></th> <th><u>Fund b/fwd</u> <u>£'m</u></th> <th><u>Net Movement</u> <u>£'m</u></th> <th><u>Fund c/fwd</u> <u>£'m</u></th> <th><u>Interest Rec</u> <u>£'m</u></th> </tr> </thead> <tbody> <tr> <td>Blackrock</td> <td>3.00</td> <td>(2.0)</td> <td>1.00</td> <td>0.004</td> </tr> <tr> <td>Goldman Sachs</td> <td>3.00</td> <td>(2.0)</td> <td>1.00</td> <td>0.006</td> </tr> <tr> <td>HSBC</td> <td>0.00</td> <td>1.0</td> <td>1.00</td> <td>0.003</td> </tr> <tr> <td>Morgan Stanley</td> <td>3.00</td> <td>(2.0)</td> <td>1.00</td> <td>0.006</td> </tr> <tr> <td>Invesco</td> <td>0.00</td> <td>2.25</td> <td>2.25</td> <td>0.005</td> </tr> <tr> <td></td> <td>9.00</td> <td>(2.75)</td> <td>6.25</td> <td>0.024</td> </tr> </tbody> </table> <p>During the period these fund have proved a useful alternative to fixed term investments. The liquid nature of these funds with the ability to invest and redeem as and when required have helped manage unplanned cash surpluses and provided additional flexibility around the timing of settling</p>	<u>Counterparty</u>	<u>Fund b/fwd</u> <u>£'m</u>	<u>Net Movement</u> <u>£'m</u>	<u>Fund c/fwd</u> <u>£'m</u>	<u>Interest Rec</u> <u>£'m</u>	Blackrock	3.00	(2.0)	1.00	0.004	Goldman Sachs	3.00	(2.0)	1.00	0.006	HSBC	0.00	1.0	1.00	0.003	Morgan Stanley	3.00	(2.0)	1.00	0.006	Invesco	0.00	2.25	2.25	0.005		9.00	(2.75)	6.25	0.024
<u>Counterparty</u>	<u>Fund b/fwd</u> <u>£'m</u>	<u>Net Movement</u> <u>£'m</u>	<u>Fund c/fwd</u> <u>£'m</u>	<u>Interest Rec</u> <u>£'m</u>																																
Blackrock	3.00	(2.0)	1.00	0.004																																
Goldman Sachs	3.00	(2.0)	1.00	0.006																																
HSBC	0.00	1.0	1.00	0.003																																
Morgan Stanley	3.00	(2.0)	1.00	0.006																																
Invesco	0.00	2.25	2.25	0.005																																
	9.00	(2.75)	6.25	0.024																																

	financial commitments.												
3.2	<u>BORROWING</u>												
3.2.1	The borrowing position and portfolio as at 31 st October 2016 is shown in Table 3 below: <u>Table 3</u>												
	<table border="1"> <thead> <tr> <th><u>Lender</u></th> <th><u>Amount Borrowed</u> <u>£'m</u></th> <th><u>Annual Interest Rate %</u></th> </tr> </thead> <tbody> <tr> <td>Public Works Loan Board (PWLB)</td> <td>4.26</td> <td>5.85</td> </tr> <tr> <td>Newport City Council</td> <td>0.56</td> <td>6.56</td> </tr> <tr> <td></td> <td>4.82</td> <td></td> </tr> </tbody> </table>	<u>Lender</u>	<u>Amount Borrowed</u> <u>£'m</u>	<u>Annual Interest Rate %</u>	Public Works Loan Board (PWLB)	4.26	5.85	Newport City Council	0.56	6.56		4.82	
<u>Lender</u>	<u>Amount Borrowed</u> <u>£'m</u>	<u>Annual Interest Rate %</u>											
Public Works Loan Board (PWLB)	4.26	5.85											
Newport City Council	0.56	6.56											
	4.82												
3.2.2	The PCC is repaying the interest on a quarterly basis on the principal amount due on each of the 13 PWLB loans outstanding. Total interest of £0.125m has been paid for Q1 and Q2. Repayment of the first principal amount of £0.30m is due on the 13 th June 2020, although this position will be superseded when the Commissioner progresses the early repayment of this debt as per paragraph 3.3.2 below.												
3.2.3	With regard to the loan with Newport City Council, repayments of both the principal outstanding and interest due are made twice a year on the 30 th September and 31 st March respectively. Principal and interest payments made to date have totalled £0.08m and £0.02m respectively.												
3.2.4	No new borrowing has been taken out during the period 1 st April 2016 to 31 st October 2016.												
3.3	<u>EARLY REPAYMENT OF DEBT</u>												
3.3.1	For a number of years, the intention to repay debt has been considered and reported, but the recurrent benefits have been marginal. However, pending any further reduction in interest rates, the Commissioner's current Treasury Management position facilitates the early repayment of debt.												
3.3.2	In relation to the PWLB debt of 13 individual loans totalling £4.260m, Appendix 4 confirms that the premium payable to settle these loans early amounts to £1.474m. If this premium is written off over the remaining life of each individual loan, the premium payable per annum amounts to £0.209m. In addition to this cost, the Commissioner must take into account the loss of investment income from making a cash payment of £5.734m (£4.260m principal plus £1.474 premium). If a rate of return of 0.25% is assumed, then the Commissioner will forego £0.014m of investment income p.a. The transaction costs p.a. for settling the debt early therefore amounts to £0.223m p.a. On the benefit side however, the settlement of this debt will remove £0.249m of interest payments p.a., therefore providing a net benefit of £0.026 p.a., in addition to the non-financial benefits of servicing the management of the debt e.g. staff time. This financial benefit will improve as and when the individual premiums are written off.												
3.3.3	In relation to the Newport City Council debt, it is the Commissioner's intention to also redeem this debt early and dialogue to this end is ongoing. Members will be updated in due course.												

4.	<u>NEXT STEPS</u>
4.1	That Members note the Treasury Management Activity and also the early repayment of the Commissioner's PWLB debt.
5.	<u>FINANCIAL CONSIDERATIONS</u>
5.1	These are detailed in the report.
6.	<u>PERSONNEL CONSIDERATIONS</u>
6.1	There are no staffing/personnel implications arising from this report.
7.	<u>LEGAL IMPLICATIONS</u>
7.1	There are no legal implications arising from this report.
8.	<u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u>
8.1	This report has been considered against the general duty to promote equality, as stipulated under the Single Equality Plan and has been assessed not to discriminate against any particular group.
8.2	Consideration has been given to requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998 in preparing this report.
9.	<u>RISK</u>
9.1	Treasury Management can never be risk free. In borrowing, the risk is that interest payable might be higher than necessary and in lending there is the risk of default on repayment and the risk that a better rate of return could have been achieved. Adherence to the CIPFA Code of Practice on Treasury Management is best practice in terms of balancing risk and return.
10.	<u>PUBLIC INTEREST</u>
10.1	This is a public document.
11.	<u>CONTACT OFFICER</u>
11.1	Hywel Morgan, Senior Financial Accountant
12.	<u>APPENDICES</u>
12.1	<p>Appendix 1 – Current Fixed Term Investment List</p>  <p>Appendix 1 - Current Fixed Term Investmei</p> <p>Appendix 2 – Current Money Market Investment List</p>  <p>Appendix 2 - Current Money Market Invest</p>

Appendix 3 – Analysis of Fixed Term Investments Made and Repaid



Appendix 3 -
Analysis of Fixed Terr

Appendix 4 – PWLB Early Redemption Calculation



PWLB
Repayment.xlsx