

OFFICE OF THE POLICE & CRIME COMMISSIONER

TITLE:	Treasury Management Update Report
DATE:	21st December 2017
TIMING:	Routine
PURPOSE:	For monitoring

1. RECOMMENDATION

1.1 To consider the Treasury Management Activity for the period 1st April 2017 to 31st October 2017.

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 2017/18.

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 2017. The listing shows that the Police and Crime Commissioner's (PCC's) current fixed investment portfolio totals £53m. On maturity these deposits will earn an average rate of return of 0.361%, which will amount to £0.137m of earned interest income on maturity.

Appendix 2 summarises money market investments as at 31st October 2017. The listing shows a current portfolio of £9m, invested across two triple-A rated funds. The current average yield is 0.21%, which will provide an estimated annual interest return of £0.015m, 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	0.00
Banks & Building Societies	0.00	0.00
Local Authorities	53.00	85.48
Money Market Funds	9.00	14.52
	62.00	100.0

3.1.3 As per the 2017/18 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 five deposits, which on maturity will have been on deposit for 364 days. These are with Thurrock Borough Council (£1m), Fife Council (£4m), London Borough of Islington (£5m), Southampton City Council (£5m) and North Tyneside Metropolitan Borough Council (£3m). On maturity these deposits will earn interest of £0.082m.</p> <p>The weighted average maturity of fixed term investments as at the 31st October was 174 days and 19% of investments held during the first six months of the year had 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 Thurrock Borough Council.</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 interest rate. Due to the Bank of England Interest rate increase, the rate of return is now 0.25% (up to 3 months) and 0.25% (3 to 6 months) which is below the average rate of return of 0.361% 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 2017 to 31st October 2017. Investment interest earned on matured deposits during this period totalled £0.100m on a cash basis. The average rate of return on these deposits was 0.337%. For the financial year 2016/17, the weighted average rate of return on investment deposits was 0.354%.</p> <p>Table 2 below details the movement in money market funds during the period 1st April 2017 to 31st October 2017. Funds earned an average rate of return of 0.21% over this period.</p> <p>Table 2</p> <table border="1"> <thead> <tr> <th><u>Counterparty</u></th> <th><u>Fund</u> <u>b/fwd £’m</u></th> <th><u>Net</u> <u>Movement</u> <u>£’m</u></th> <th><u>Fund</u> <u>c/fwd</u> <u>£’m</u></th> <th><u>Interest</u> <u>Rec</u> <u>£’m</u></th> </tr> </thead> <tbody> <tr> <td>Blackrock</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.000</td> </tr> <tr> <td>BNP Paribas</td> <td>4.00</td> <td>1.00</td> <td>5.00</td> <td>0.006</td> </tr> <tr> <td>Invesco</td> <td>5.00</td> <td>(1.00)</td> <td>4.00</td> <td>0.005</td> </tr> <tr> <td>Morgan Stanley</td> <td>1.00</td> <td>(1.00)</td> <td>0.00</td> <td>0.000</td> </tr> <tr> <td></td> <td>10.00</td> <td>(1.00)</td> <td>9.00</td> <td>0.011</td> </tr> </tbody> </table> <p>During the period these funds have proved a useful alternative to fixed term investments. The liquid nature of these funds, with the ability to invest and</p>	<u>Counterparty</u>	<u>Fund</u> <u>b/fwd £’m</u>	<u>Net</u> <u>Movement</u> <u>£’m</u>	<u>Fund</u> <u>c/fwd</u> <u>£’m</u>	<u>Interest</u> <u>Rec</u> <u>£’m</u>	Blackrock	0.00	0.00	0.00	0.000	BNP Paribas	4.00	1.00	5.00	0.006	Invesco	5.00	(1.00)	4.00	0.005	Morgan Stanley	1.00	(1.00)	0.00	0.000		10.00	(1.00)	9.00	0.011
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	redeem as and when required, have helped manage unplanned cash surpluses and provided additional flexibility around the timing of settling financial commitments.												
3.2	<u>BORROWING</u>												
3.2.1	The borrowing position and portfolio as at 31 st October 2017 is shown in Table 3 below: Table 3												
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Public Works Loan Board (PWLB)	0.00	0.00											
Newport City Council	0.00	0.00											
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3.2.2	As previously reported the PCC took the decision to make an early repayment of the principal of £4.26m and accrued interest and premium of £1.47m to the PWLB on the 31 st March 2017.												
3.2.3	In addition the principal and interest payments in relation to the loan with Newport City Council were paid off on the 9 th January 2017 for the sum of £0.65m.												
3.2.4	No new borrowing has been taken out during the period 1 st April 2017 to 31 st October 2017.												
4.	<u>NEXT STEPS</u>												
4.1	That Members note the Treasury Management Activity.												
4.2	<u>Markets in Financial Instruments Directive (MiFID II) LOCAL AUTHORITY ELECTION FOR PROFESSIONAL STATUS</u> Under MiFID II, all Local Authorities (including the PCC) will be classified as retail counterparties and will have to consider whether to opt up to 'elective professional client' status and for which types of investments. MiFID II takes effect from 3 rd January 2018 and the retail classification will significantly restrict the range of institutions and instruments available to Local Authorities. The PCC has confirmed that the OPCC for Gwent meets the criteria and has elected to opt-up to professional client status as it will allow continuity in investment strategy. The PCC is confident that all paperwork and processes will be complete in advance of the deadline.												
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	Rebecca Jones – Accountant
12.	<u>APPENDICES</u>
12.1	<p>Appendix 1 – Current Fixed Term Investment List</p>  <p>Appendix 1 - Current Fixed Term Investme</p> <p>Appendix 2 – Current Money Market Investment List</p>  <p>Appendix 2 - Current Money Market Invest</p> <p>Appendix 3 – Analysis of Fixed Term Investments Made and Repaid</p>  <p>Appendix 3 - Anaysis of Fixed Investments</p>